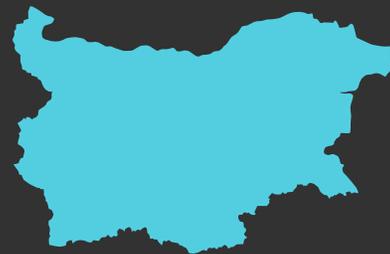


# Country Guide

## Bulgaria

Prepared by

Penkov, Markov & Partners



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INTERNATIONAL LAW FIRM

SINCE 1990

*GUIDE  
TO DOING  
BUSINESS IN  
BULGARIA*

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# GUIDE TO DOING BUSINESS IN BULGARIA 2017

**PENKOV, MARKOV & PARTNERS  
INTERNATIONAL LAW FIRM**

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**This guide is based on the Bulgarian legislation as of November 2016.**

## **CONTENTS**

### **I. The Country At A Glance**

- 1.1. Location, Area and Population
- 1.2. Climate
- 1.3. Political Structure
- 1.4. Official Language and Traditional Religion
- 1.5. Currency and Exchange Rate
- 1.6. Infrastructure and Communication
- 1.7. Public Services

### **II. General Considerations**

- 2.1. Investment policies
- 2.2. Diplomatic Relations
- 2.3. Government
- 2.4. Environmental Considerations
- 2.5. Intellectual Property

### **III. Investment Incentives**

- 3.1. Export incentives or guarantees
- 3.2. Grants, subsidies or funds your country offers foreign investors
- 3.3. National tax incentives for foreign investors
- 3.4. Regional tax incentives open to foreign investors

### **IV. Financial Facilities**

- 4.1. Banking/Financial Facilities

### **V. Exchange Controls**

- 5.1. Business Transactions with Nationals, Residents or Non-Residents
- 5.2. Investment Controls
- 5.3. Money Transfer

### **VI. Import/Export Regulations**

- 6.1. Customs Regulations
- 6.2. Exports
- 6.3. Foreign Trade Regulations
- 6.4. Imports

- 6.5. Manufacturing Requirements
- 6.6. Product Labeling

## **VII. Structures For Doing Business**

- 7.1. Governmental Participation
- 7.2. Joint Ventures
- 7.3. Limited Liability Companies
- 7.4. Liability Companies, Unlimited
- 7.5. Partnerships, General or Limited
- 7.6. Partnerships, Undisclosed
- 7.7. Sole Proprietorships
- 7.8. Subsidiaries/Branches/Representative Offices
- 7.9. Trusts and other Fiduciary Entities

## **VIII. Requirements For The Establishment Of A Business**

- 8.1. Alien Business Law
- 8.2. Antitrust Laws
- 8.3. Environmental Regulations
- 8.4. Government Approvals
- 8.5. Insurance
- 8.6. Licenses/Permits

## **IX. Operation Of The Business**

- 9.1. Advertising
- 9.2. Attorneys
- 9.3. Bookkeeping Requirements
- 9.4. Business Ethics/Codes
- 9.5. Consumer Protection Laws
- 9.6. Construction
- 9.7. Contracts
- 9.8. Price Controls
- 9.9. Product Registration
- 9.10. Reductions or Return on Capital
- 9.11. Sale of Goods
- 9.12. Trade Associations

---

## **X. Cessation Or Termination Of Business**

- 10.1. Termination
- 10.2. Insolvency/Bankruptcy

## **XI. Labor Legislation, Relation, And Supply**

- 11.1. Employer/Employee Relations
- 11.2. Employment Regulations
- 11.3. Hiring and Firing Requirements
- 11.4. Labor Availability
- 11.5. Labor Permits
- 11.6. Safety Standards
- 11.7. Unions

## **XII. Tax On Corporations**

- 12.1. Allowances
- 12.2. Calculation of Taxes
- 12.3. Capital Gains
- 12.4. Filing and Payment Requirements
- 12.5. Miscellaneous Taxes Due
- 12.6. Registration Duties
- 12.7. Sales Tax or other Turnover Tax
- 12.8. Social Security and Welfare System Contributions
- 12.9. Special Tax Schemes
- 12.10. Tax on Profits
- 12.11. Tax Treaties
- 12.12. Territoriality Rules
- 12.13. Treatment of Tax Losses
- 12.14. Wealth Tax
- 12.15. Withholding Taxes

## **XIII. Tax On Individuals**

- 13.1. Allowances
- 13.2. Calculation of Taxes
- 13.3. Capital Gains Tax
- 13.4. Filing and Payment Requirements

- 13.5. Inheritance and Gift Tax
- 13.6. Miscellaneous Taxes Due
- 13.7. Real Estate/Habitation Tax
- 13.8. Sales Tax
- 13.9. Social Security and Welfare System Contributions
- 13.10. Stock Option, Profit Sharing and Savings Plans
- 13.11. Taxation of Benefits in Kind
- 13.12. Taxes on Dividends
- 13.13. Tax on Income
- 13.14. Tax Treaties
- 13.15. Territoriality Rules
- 13.16. Wealth Tax
- 13.17. Withholding Tax

#### **XIV. Tax On Other Legal Bodies**

- 14.1. Allowances
- 14.2. Calculation of Taxes
- 14.3. Capital Gains
- 14.4. Filing and Payment Requirements
- 14.5. Miscellaneous Taxes
- 14.6. Registration Duties
- 14.7. Sales Tax or other Turnover Tax
- 14.8. Social Security and Welfare System Contributions
- 14.9. Special Tax Themes
- 14.10. Tax on Profits
- 14.11. Tax Treaties
- 14.12. Territoriality Rules
- 14.13. Treatment of Tax Losses
- 14.14. Wealth Tax
- 14.15. Withholding Taxes

#### **XV. General Tax Considerations**

- 15.1. Taxes Generally

#### **XVI. Immigration Requirements**

- 
- 16.1. Immigration Controls
  - 16.2. Immigration Requirements / Formalities
  - 16.3. Visas

## **XVII. Expatriate Employees**

- 17.1. Cost of Living and Immigration
- 17.2. Drivers' Licenses
- 17.3. Education
- 17.4. Housing
- 17.5. Importing Personal Possessions
- 17.6. Medical Care
- 17.7. Moving Costs
- 17.8. Tax Liability
- 17.9. Work Contracts
- 17.10. Work Permits

1



Official name:	Republic of Bulgaria
Area:	110 994 sq.km.
Population:	7.4 million
Capital:	Sofia
Time zone:	EET (UTC+2)
Official language:	Bulgarian
Currency:	Lev (BGN)
Fixed exchange rate:	€1 = BGN 1.95583
Type of government:	Parliamentary
Member of:	EU, NATO, WTO



<sup>1</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## **I. The Country At A Glance**

### **1.1. Location, Area and Population**

The Republic of Bulgaria is situated in South-Eastern Europe, in the Eastern part of the Balkan Peninsula between 41°14' and 44°14' Northern latitude and 22°21' and 28°36' Eastern longitude. Bulgaria has a territory of 110 993.6 square kilometers which is 22 % of the Balkan Peninsula. Its length is 520 km and its width is 330 km. The overall length of its borders is 2 245 km. Bulgaria borders Romania to the North (the frontier line runs along the Danube River and continues on land to the north-east), Greece and Turkey to the South, Serbia and Former Yugoslav Republic of Macedonia to the West and the Black Sea to the East.

As of 31<sup>st</sup> December 2015 the population of Bulgaria is 7 153 784.

Capital of the country is the city of Sofia with a population of approximately 2 million.

### **1.2. Climate**

The climate in Northern Bulgaria is moderate continental, while the climate in the southern part of the country is intermediate continental tending to Mediterranean. The climate in the regions with an altitude of 1 900 - 2 000 m above sea level is mountainous and along the Black Sea coast it is maritime. The climate of the seaside regions is milder in the winter and cooler in the summer compared to the climate of the interior of the country.

### **1.3. Political Structure**

Bulgaria's current political structure is set through the adoption of a democratic constitution in 1991. Bulgaria is a unitary parliamentary republic with a high degree of political, administrative, and economic centralization. It is a member of the Council of Europe since 1992, of NATO since 2004 and of the European Union since 2007. Bulgaria is a founding state of the Organization for Security and Co-operation in Europe (OSCE) and has been elected member of the UN Security Council three times (1966 – 1967, 1986 – 1987, 2002 – 2003). The country also participates in many other international organizations active in specific fields of the political, economic life etc.

### **1.4. Official Language and Traditional Religion**

The official language in the country is Bulgarian language and the alphabet used is the Cyrillic alphabet.

Minority of the people also speak Turkish.

In the recent years minding the intensive business development and significant foreign investments in the economy most of the people involved in the commercial activity are fluent in English. German, Russian and French are also spoken but not so widely.

The traditional religion in Bulgaria is Eastern Orthodox. There is a minority of the population affiliated with other religions including mainly Islamic and Catholic.

There are neither cultural nor religious influences nor prohibitions affecting the way business is conducted in the country.

## 1.5. Currency and Exchange Rates

The official currency in Bulgarian is the Bulgarian lev. A fixed exchange rate applies between the Bulgarian lev and the Euro, whereas 1 EUR equals 1.95583 BGN.

## 1.6. Infrastructure and Communication

The country's main infrastructure in general includes the following:

### **Airports:**

- Sofia Airport Terminal 1 and 2;
- Airport Varna;
- Airport Burgas;
- Airport Plovdiv;
- Airport Gorna Oryahovitsa.

### **Highways:**

- Trakia Motorway (Sofia – Burgas);
- Hemus Motorway (Sofia – Yablanitsa, Shumen – Varna);
- Lyulin Motorway – Sofia – Pernik;
- Maritsa Motorway from Chirpan (connection with Trakia Motorway) to Svilengrad (at the border with Turkey);
- Struma Motorway from Sofia to the Border with Greece – partially under construction; in operation from Sofia to Blagoevgrad and from Petrich to the border with Greece;
- Black Sea Motorway from Burgas to Varna – under construction.

According to the strategic program of the current government and the preceding governments the completion of the highways is regarded as top priority. While Trakia and Maritsa motorways have been completed recently and other are expected to be finalized within the program period until 2020.

**Main Ports:** Varna, Burgas, Lom, Rousse, Samovit, Svishtov, Tutrakan, Silistra.

### **Railroad system**

The railroad system consists of 9 major railways:

- Kalotina – Svilengrad;
- Sofia – Varna;
- Iliyantsi – Sindel;
- Rousse – Podkova;
- Sofia – Kulata;
- Voluyak – Gyueshevo;
- Mezdra – Vidin;
- Plovdiv – Burgas;

- Rousse – Kaspichan.

### **Public transport:**

Well-established and developed system of city and coach transportation services with prevailing significance of the automobile transport. There is a tendency towards expansion of private presence in the sector, i.e. different private structures overtake distances or in-city lines.

The public transport is under especially dynamic development in the last years in the city of Sofia where on 28.01.1998 the first section of the First diameter of the metro which had 5 stations and length of 6.5 km was commissioned. Since then a total of 34 stations and 39 km are under operation which has resulted in an increase in the number of passengers carried by metro - up to 380 thousand passengers/daily (per weekday). A new Third metro diameter is currently under construction expected to be finalized and launched in 2018.

### **Media and Electronic Communications:**

The telecommunication market is fully liberalized and has significantly developed in the last decade where at the core of its dynamic change stands the rapid technological development. The transition to high-speed broadband IP-based next generation networks, including to 4G technologies in mobile networks, the scaled-up convergence of fixed and mobile networks, the wide take-up of OTT, bundled services and of Machine-to-Machine communication, and the increased consolidation in the sector are all trends and factors that pose serious challenges to regulation.

Under the survey done in 2015 by Akamai – Cloud Technology Company, Bulgaria has the world's highest percentage Internet users using the network with speed above 4 Mbps (96% of all users having Internet access) which is slightly above the results for South Korea. The full high speed Internet penetration is still a problem in the rural areas.

The largest fixed operator is Vivacom (former Bulgarian Telecommunication Company), which since more than 10 years is private company and which was object of the biggest M&A deal not only in Bulgaria but also on the Balkans

Currently in Bulgaria are functioning 3 mobile telephone operators: Mtel, Telenor, and Vivacom having developed 4G mobile networks, one Virtual Mobile Operator - BOB and WiMax Operator – Maxtelecom providing 4G services. All these companies are fully private.

### **1.7. Public Services**

Most of the public services are state-owned, whereas during the last ten years all the structures have been divided following regional principle, each subdivision having its own managing body but under the supervision of the relevant Ministry. At present great number of the water supply and maintenance of sewerage systems are given under concessions to private companies as the process of consolidation on this market is ongoing.

Electricity transmission system is owned by the state owned company and the distribution grid is owned by the private companies – CEZ, EVN and Energo Pro.

During the last ten years the renewable energy production was subsidized by the State through the feed-in-tariff schemes which resulted in now days 16 % of the total production of electricity comes from renewable sources – water, solar, wind and biomass.

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All the renewable production plants are privately owned.

Centralized gas supply is neither so popular nor well established in Bulgaria for the households but is well developed for the industry consumers. Some of the biggest industrial enterprises have their own gas mains and use gas for their production needs. Some of the largest cities have developed gas supply network and develop the service for the households.

Since the beginning of this year Bulgarian Energy exchange started operation which is the step toward full liberalization of the electricity market. Although the energy markets in the country are legally liberalized, in practice only a small share of the electricity is purchased under freely negotiated prices.

# INVEST IN BULGARIA

2

## 5 reasons to invest in BULGARIA

### 1. Political and business stability

- ✓ EU, NATO & WTO member
- ✓ Currency board
- ✓ Low budget deficit and government debt

### 2. Competitive cost of doing business

- ✓ 10% Corporate and Personal tax rates
- ✓ Competitive cost of labor
- ✓ Favorable office rents and low cost of utilities

### 3. Access to markets

- ✓ European Union / EFTA
- ✓ Russia
- ✓ Turkey/Middle East

### 4. Educated & skilled workforce

- ✓ 80 000 students abroad
- ✓ 25% of population hold university degree
- ✓ 46% of population speak at least one foreign language

### 5. Government incentives

- ✓ Social security benefits
- ✓ Tax benefits
- ✓ Vocational education benefits

<sup>2</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## II. General Considerations

### 2.1. Investment policies

#### 2.1.1. Investment regime and promotion in general

There are no restrictions on foreign investment or foreign shareholders in the Republic of Bulgaria. Foreign investors are considered equal to local investors in all aspects, including shareholder participation. The Invest Bulgaria Agency (IBA) at the Ministry of Economy, Energy and Tourism is created in order to support potential local and foreign investors in Bulgaria by providing information, contacts and project management support to investors. For more detailed information on the investment promotion mechanisms and requirements, please see point 3 below.

#### 2.1.2. Sector Specific incentives and restrictions on foreign investments

Additional requirements and specific restrictions apply to companies registered in jurisdictions with preferential tax regimes and any parties related to such companies under the regulations of the Economic and Financial Relations with Companies Registered in Preferential Tax Treatment Jurisdictions, the Persons Controlled Thereby and Their Beneficial Owners Act Restrictions on business activity carried out by foreign nationals can be imposed in limited sectors (for example: related to national security, tobacco processing and medical research where licensing regimes apply).

There are also restrictions for foreign nationals to acquire ownership over agricultural land: Eligible to acquire right of ownership over agricultural lands shall be natural or legal persons who have been resident or established in the Republic of Bulgaria for more than 5 years.

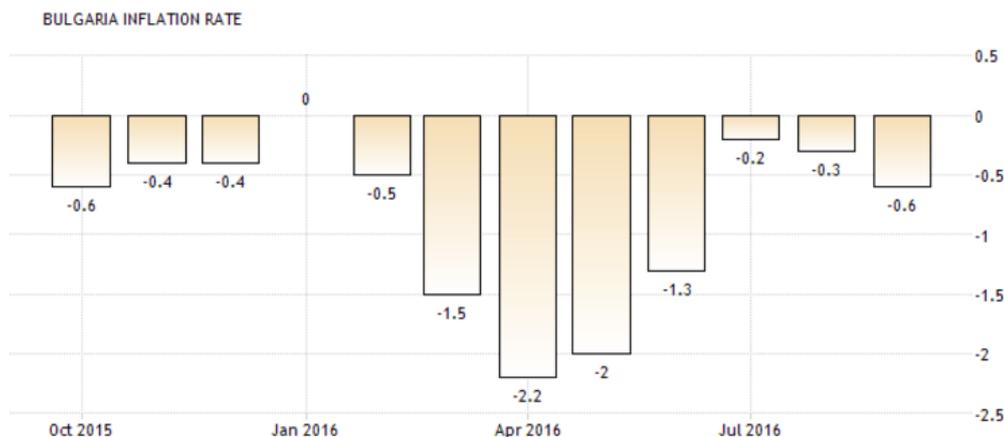
On 1 January 2014, EU citizens obtained equal rights to Bulgarian citizens in relation to real estate in Bulgaria.

As an EU-member state, Bulgaria imposes restrictions established at EU level (for example: the applicable visa regime, customs regime, etc.) that are applied under the common European policy in the respective field.

#### 2.1.3. Inflation rate – Inflation rate for 2016<sup>3</sup>

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<sup>3</sup> Source: National Statistical Institute of the republic of Bulgaria - <http://www.nsi.bg/en>



#### 2.1.4. De facto restrictions on investment

The state-owned railway operator faces financial and restructuring difficulties.

Bulgaria continues to face major challenges in meeting quality water supply and sanitation requirements. Therefore a big portion of the European funds for infrastructure are allocated for such purpose.

Public procurement is affected by a frequently changing legal framework and insufficient administrative capacity but with the last changes this year the latest EU requirements are finally implemented which is the basis for stable administrative practice

#### 2.1.5. Sizes of different markets

The main segments in the structure of Bulgaria's GDP are the sectors of agriculture (appr. 10 %), industries – (appr. 30 %) and services (appr. 60 %).

#### 2.1.6. Some accents on specific types of businesses conducted in Bulgaria

##### 2.1.6.1. Business Process Outsourcing

During the last couple of years Bulgaria is a very popular destination for the outsourcing of the IT servicing and support, call center activities, electronics, production of spare parts for the automotive industry and machine building for units of many multinational companies.

The country is qualified as the best outsourcing destination in Europe, according to Cushman & Wakefield's rating for 2015. In the world the country takes the third place.

The Sector:

- ✓ More than 30 000 people work in the sector
- ✓ 3% of GDP was generate by the sector in 2015
- ✓ 8 000 € annual starting salaries per Employee.

Relevant Advantages:

- ✓ Bulgaria offers qualified and cost-effective workforce and advantageous rents of commercial space

- ✓ BPO sector generates over € 964 million revenues Bulgaria is the best outsourcing destination in Europe
- ✓ The average BPO company in Bulgaria provides services in more than 25 languages.

#### 2.1.6.2. Information Technology

##### The Sector:

- ✓ More than 17 500 specialists work in The Sector
- ✓ 1.86 % of GDP was generate by The Sector in 2015
- ✓ 20 600€ annual wages per Employee.

##### Relevant Advantages:

- ✓ Established traditions and experience in the sector
- ✓ One of the fastest growing sectors of the economy
- ✓ The revenues of Bulgarian IT Companies grew by 11%
- ✓ Over 4 300 students get a degree in IT each year
- ✓ Bulgarian Internet speed is one of the fastest in the world.

#### 2.1.6.3. Electronics

##### The Sector:

- ✓ More than 45 000 people work in The Sector
- ✓ 6 000 € annual wages per Employee.

##### Relevant Advantages:

- ✓ Availability of experienced engineers
- ✓ Qualified assembly workforce at affordable cost
- ✓ Easy access to EU, Russian and Middle East markets
- ✓ More than 75% of the production of the Electronics manufactured in Bulgaria is exported
- ✓ Bulgarian universities are working together with the companies in the sector to create qualified workforce.

#### 2.1.6.4. Machine Building

##### The Sector:

- ✓ More than 200 000 people, working in The Sector
- ✓ 18% of GDP was generate by The Sector for 2015
- ✓ 5 000 € annual wages per Employee

##### Relevant Advantages:

- ✓ Established traditions and experience in the sector
- ✓ Continuous growth between 2000 and 2015

- ✓ Qualified work force at affordable price
- ✓ Easy access to the markets
- ✓ Networks of technical universities and colleges
- ✓ Available physical infrastructure.

#### 2.1.6.5. Food & Beverage

The Sector:

- ✓ More than 666 000 people work in The Sector
- ✓ 5% of GDP was generated by The Sector
- ✓ 5 300€ annual wages per Employee

Relevant Advantages:

- ✓ Unique natural conditions for the cultivation of a wide variety of crops, fruits, and vegetables
- ✓ 49% of the country's territory is farming land
- ✓ A well-established infrastructure available
- ✓ Highly qualified and affordable human resources
- ✓ Strategically located to provide routes to Europe, Russia, CIS, the Middle East, and North Africa.

2.1.6.6. Bulgaria accommodates about 50 companies producing components and systems for the global automotive industry. In eight of every ten cars in Europe, the parts are produced in Bulgaria.

2.1.6.7. The country is on first place in the world in the production of lavender. For the past three years, Bulgaria has managed to surpass France from the first place and France is historically a leader in this field.

2.1.6.8. Bulgaria is the largest exporter of sunflower seeds worldwide in 2013. Our market share in the exports of this commodity in the planet is 17.8%.

## 2.2. Diplomatic Relations

Bulgaria is a member-state of the European Union since 2007 and a member of NATO since 2004. The diplomatic relations of the country are very well developed and are established on the modern principles of the international public law. Being a member-state of the European Union, the country's foreign policy is compliant with the common values and decisions of the European Community.

Bulgaria's strategic geographic location and well-developed energy sector make it a key European energy centre despite its lack of significant fossil fuel deposits. Nearly 34 percent of its electricity is produced by the nuclear power station at Kozloduy and public opinion strongly supports nuclear energy development. Several years ago there used to be a process of rapid expansion of alternative energy sources such as wind and solar power stations which then made Bulgaria one of the fastest-growing wind energy producers in the world. This process was slowed down as a result of some legislative changes to the regime applicable

on the production and pricing in the fields of renewable energy. Nevertheless, the country aims to produce 16 percent of its electricity from renewable energy sources by 2020.

Bulgaria strongly supports the development and the accession of the countries from the Western Balkans to the European Union in the near future.

Please find attached as Appendix 1 to this guide a detailed list of the embassies of foreign countries which are established in Bulgaria or accredited to Bulgaria.

### **2.3. Government, Parliament and Judicial System**

#### **2.3.1. Executive and Legislative Powers**

Bulgaria is a parliamentary republic.

The main executive position is the prime minister.

Bulgaria observes the democratic principles of modern constitutional law and the rule of law principles.

The national assembly (parliament) consists of 240 deputies elected through direct voting for a four-year mandate.

The national assembly has the power to enact laws, approve the budget, schedule presidential elections, select and dismiss the prime minister and other ministers, declare war, deploy troops abroad, and ratify international treaties and agreements.

The president serves as the head of state and commander-in-chief of the armed forces, and has the authority to return a bill for further debate, although the parliament can override the presidential veto by a simple majority vote of all members of parliament. The president of the country is elected through direct voting with a 5 years mandate.

The mayor and the members of the municipality council are also elected directly for a 4-year mandate.

Right to vote on elections have the Bulgarian citizens who have accomplished 18 years of age by the day of election including, with exception of citizens under judicial disability and imprisonment.

In November 2016 presidential elections took place whereas an independent candidate supported by the Bulgarian Socialist Party was elected new president after defeating the candidate supported by GERB – the political party having a majority of deputies in the National Assembly and having formed the government. As a result the government resigned from power with the argument that it does not have the necessary support in society anymore.

Now according to the Constitution of the Republic of Bulgaria the President is expected to entrust an exploratory mandate to propose a new government to the first biggest, the second biggest and one of the next parties in the existing parliament. Should no agreement be reached on the formation of a government, the President shall appoint a caretaker cabinet, shall dissolve the National Assembly, and shall schedule new elections within several months. According to the preliminary expectations no new government will be formed within the current parliament and new elections will need to take place within the first quarter of 2017.

### 2.3.2. Judicial system

The system for administration of justice in Bulgaria is established on the basis of three instances jurisdiction. The jurisdiction is effected by courts which are established as state bodies and administer justice in civil, criminal and administrative cases.

Legal disputes are resolved by the courts and no political methods of resolving legal disputes are admissible.

There are no separate judicial systems within the country on the principle of federal or other local differentiation. The judicial system is unified, free and independent.

The disputing parties are generally free to choose the applicability of a law different from the Bulgarian under the terms and conditions of international private law and the Bulgarian Code on International Private Law. The international jurisdiction of the Bulgarian courts and other authorities shall be exclusive solely where so expressly provided for. Nevertheless, it is not possible for an investor to generally choose to be subject to the country's jurisdiction or not. Such choice may be possible only with respect to particular contractual relations and upon agreement of the parties.

At present, there are still ongoing discussions on the long-time expected judicial reform, concerning major changes in the organisation of the judicial system and also requiring Constitutional amendments.

#### 2.3.2.1. Supreme Judicial Council

The organization and activities of the Bulgarian courts are governed by the Judicial System Act, which lays down the structure and operating principles of the judicial bodies and governs their interaction with each other and with the legislative and executive bodies.

The law provides for the Supreme Judicial Council as the highest administrative authority and responsible for managing the judiciary and ensuring its independence. The Supreme Judicial Council determines the composition and organization of the judiciary and manages its affairs without interfering with the independence of the bodies concerned.

The Supreme Judicial Council determines the number of judicial districts and the seats of the district, provincial, administrative and appeal courts on the basis of a proposal by the Minister of Justice and – as regards military courts – in coordination with the Minister of Defence.

#### 2.3.2.2. Types of courts

i) District courts – The district courts are the main courts for examining cases in the first instance. Their decisions are subject to appeal before the relevant provincial court.

ii) Provincial courts – The provincial courts act as courts of first and second instance. As courts of first instance, they examine a precisely defined category of cases involving significant sums or substantial societal interest. When acting as a second (appellate) instance, they re-examine decisions taken by the district courts.

iii) Administrative courts - The administrative courts have jurisdiction over all actions addressing: the issue, amendment, repeal or annulment of administrative acts; a declaration that an agreement covered by the Administrative Procedure Code is null or void; redress against unwarranted actions and omissions by the administration; protection against unlawful coercive enforcement; compensation for injury resulting from unlawful acts, actions or

omissions by administrative authorities and officials; compensation for injury resulting from coercive enforcement; the annulment, invalidation or setting-aside of judgments rendered by administrative courts; a finding that an administrative act covered by the Administrative Procedure Code is not authentic.

Anyone can bring a legal action for ascertainment of the existence or non-existence of an administrative right or legal relationship, provided he or she has an interest and no other remedy is available.

Cases are examined by the Administrative Court under the geographical jurisdiction of which the seat of the authority which issued the contested administrative act is located. If that seat is located abroad, cases are referred to the Sofia City Administrative Court.

Administrative acts directly implementing Bulgaria's national foreign, defence or security policy are not subject to judicial appeal, unless otherwise provided for in law.

iv) The courts of appeal consider appeals and objections against first-instance rulings by provincial courts within their territorial jurisdictions.

v) The Supreme Court of Cassation is the supreme judicial instance in criminal and civil cases. Its jurisdiction covers the entire territory of the Republic of Bulgaria. It exercises supreme judicial review over the proper and uniform application of laws by all courts. It has its seat in Sofia.

vi) The Supreme Administrative Court exercises supreme judicial review over the proper and uniform application of laws by administrative courts.

The Supreme Administrative Court deals with complaints and objections against acts by the Council of Ministers, Prime Minister, Deputy Prime Minister, ministers, heads of other institutions directly subordinate to the Council of Ministers, acts of the Supreme Judicial Council, acts of the Bulgarian National Bank, acts of district governors and other acts established by statute; it adjudicates on challenges to the lawfulness of statutory instruments of secondary legislation; as a cassation instance, it examines judicial acts, adjudicates in administrative cases and examines applications for final judicial decisions in administrative cases to be set aside.

vii) Other Specialized Courts

Military courts examine, as courts of first instance, criminal cases concerning offences allegedly committed in the performance of their duties, or in connection therewith, by generals, officers, non-commissioned officers and rank-and-file in the Bulgarian army, civilian staff at the Ministry of Defence and personnel at other ministries and agencies within the structures reporting to the Minister of Defence, at the National Security Agency and at the National Intelligence Service. For such cases, the court of second instance is the Military Court of Appeal. The Criminal Procedure Code sets out the jurisdiction of the military courts. These courts have the same status as a provincial court. There is only one Military Court of Appeal, which examines appeals and objections lodged against decisions handed down by military courts nationwide.

The Specialized Criminal Court, which has its seat in Sofia, is equivalent to a provincial court. Its jurisdiction is laid down by law. The criminal offences coming under the jurisdiction of the Specialized Criminal Court – essentially those committed by or for organized criminal groups

– are exhaustively listed in Article 411a of the Criminal Procedure Code. The Specialized Criminal Court of Appeal considers appeals and objections lodged against decisions handed down by the Specialized Criminal Court.

#### 2.3.2.3. Constitutional Court of the Republic of Bulgaria

The Bulgarian Constitutional Court acts as guarantor for the irreversibility of the democratic processes in Bulgaria, the realization of which is the Constitution's main aim. This court is not part of the judicial system; it is an independent body which derives its powers directly from the Constitution and which operates under a special law. The Court's decisions on, *inter alia*, the protection of citizens' human rights and legal interests, the separation of powers, the inviolability of private property, free enterprise, the independence of the media, the prohibition of censorship and the constitutionality of the Framework Convention for the Protection of National Minorities have won considerable public and international acclaim.

#### 2.3.2.4. Arbitration courts

Civil disputes as well as disputes about gaps to be filled in contracts or their adaptation to newly arisen circumstances, regardless whether the seat or the domicile of one or both parties is in Republic of Bulgaria can be settled by arbitration courts in accordance with the Bulgarian International Commercial Arbitration Act.

The arbitration courts settle such disputes provided they have been submitted to the particular arbitration court either by an arbitration agreement or by an international treaty. The arbitration agreement must be in writing. The agreement is deemed to be in writing provided it is contained in correspondence exchanged between the parties.

Disputes about property rights or possession of immovable as well about labour relationships may not be subject to the arbitration court.

The arbitration courts decide on their jurisdiction. The objection for a lack of jurisdiction of the arbitration court needs to be made not later than the reply to the statement of claim unless there is a reasonable excuse for the delay. The arbitration courts rule on the objection for a lack of jurisdiction either by a ruling or by the decision of the case.

The Court of Arbitration at the Bulgarian Chamber of Commerce and Industry in Sofia (BCCI) has a long history more than 110 years (since 1897) and a very well developed practice in commercial disputes. Minding the three-instance court system of the state courts established in Bulgaria which is significantly slower the choice of arbitration at the Court of Arbitration at BCCI being the Bulgarian arbitration tribunal with the highest reputation usually allows resolving of any potential disputes in a quick and effective manner.

#### 2.3.2.5. Mediation

A possibility for mediation is also provided as voluntary and confidential procedure for out-of-court resolution of disputes with the assistance in reaching a settlement by a third party mediator. Even the latest practice of the judges is at the very beginning of the process to guide the disputing parties to find settlement through the mediation as option for avoiding court proceedings.

Subject of mediation may be civil, commercial, labour, family and administrative disputes related to consumer rights, and other disputes between natural persons and/or legal entities, including when the disputes are cross-border.

Mediation may also be conducted in certain criminal cases specifically provided for in the Criminal Procedure Code.

#### 2.3.2.6. Enforcing of foreign judicial decisions in Bulgaria

As a member state of the European Union all effective European regulations concerning the enforcement of judicial decision issued by courts based in another EU country are applicable in Bulgaria. In particular, a judgment pronounced in an EU member state is to be recognized without special proceedings, unless the recognition is contested. Accordingly, a declaration that a foreign judgment is enforceable is to be issued following purely formal checks of the documents supplied. The EU regulations list grounds for non-enforcement; however, courts are not to raise these of their own motion.

Judicial decisions issued by non-EU foreign court can also be enforced in Bulgaria following the rules provided under the Code on International Private Law. Also many international, bilateral contracts and agreements exist, under which Bulgaria is a party, and which provide for special resolution pointing out the exact legal body which is to resolve a particular dispute.

#### 2.3.2.7. Enforcing of Bulgarian judicial decisions outside the country

In the EU member countries the common regulations as described under 2.3.2.6. apply with respect to the enforcing of Bulgarian judicial decisions outside the country.

Within non-EU foreign countries the enforcement of Bulgarian judicial decisions and other acts depends on the local applicable rules and procedures and of course of possible bilateral treaties or conventions which may be in force.

## 2.4. Environmental Considerations

A number of legal provisions are regulating the environmental protection in Bulgaria. Some of them are: the Environment Protection Act, the Waters Act, the Act for Protection of the Soils from Pollution and the Waste Management Act. Besides the said acts, there are a number of separate regulations within other legal provisions concerning specific public relations. Also multiple specialized regulations exist and apply on EU level. In this respect a significant funding is provided by the EU funds mainly for water purifying facilities and other environmental friendly activities.

Some of the basic principles serving as grounds for the protection of the environment set forth in the relevant Bulgaria legislation include steady development, decrease of risk and prevention of human health, priority to pollution prevention over consequent elimination of pollution damages, participation of the society and transparency in the process of making decisions concerning the environment, preservation, development and protection of ecosystems together with their biological variety, rehabilitation and quality improve of the environment in polluted and damaged regions, prevention of not polluted regions, increase of the renewable energy sources in the total energy mix of the country and of befouls into the transport system, etc.

## 2.5. Intellectual Property

### 2.5.1. Legal framework

Bulgaria has a well-developed legal framework regulating intellectual property. A number of statutory acts of primary and secondary legislation have been adopted in this sphere, protecting the various rights to objects of intellectual and industrial property. Such

instruments include the Copyright and Neighboring Rights Act; the Marks and Geographical Indications Act; the Patents and Registration Useful Models Act; the Industrial Design Act; the Protection of New Plant Varieties and Animal Breeds Act.

The country is a party to a number of agreements and conventions which make it a participant on an equal footing in the European system for international registration and protection of the rights to the various intellectual and industrial property objects and holders. We could cite here such international instruments as: the Paris Convention for the Protection of Industrial Property; the Hague Agreement Concerning the International Deposit of Industrial Designs; the Convention for the Protection of Literary and Artistic Works; the Universal Copyright Convention; the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; the Locarno Agreement Establishing an International Classification for Industrial Designs; the Madrid Agreement Concerning the International Registration of Marks; the Marrakesh Agreement Establishing the World Trade Organization and its annexes, the Patent Cooperation Treaty, etc.

The relevant regulations elaborated on EU level also apply to Bulgaria as a member-state.

No prior approvals by investment boards or other bodies on national level apply to intellectual property rights of investors.

Usually, the management and protection of intellectual property rights is effected through the authorization of industrial property representatives. No notarization is required with respect to the authorization of such representative to act before the Patent Office on the name and on behalf of the entity owner of the IP rights. Nevertheless, there is a requirement for the documents issued by foreign states and submitted with the Bulgarian Patent Office (as excerpts from Commercial Registers), to be notarized and verified with an apostille in accordance with the Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents unless a bilateral treaty for cooperation on legal matters applies between Bulgaria and the country of origin of the respective official documents.

### 2.5.2. Outline of the main IP rights and their protection

Following is an outline of the main IP rights and their protection under Bulgarian law:

#### 2.5.2.1. Patents

**Definition and legal requirements.** To be patentable, inventions must have all of the following characteristics:

- i) Be new.
- ii) Involve an inventive step.
- iii) Be capable of industrial application.

**Registration.** Inventions are protected by a patent issued by the Bulgarian Patent Office (BPO), which certifies the proprietor's exclusive rights over the invention. The Republic of Bulgaria is a member of the European Patent Convention since 2002, and European patents granted by the European Patent Office also have legal effect in Bulgaria on validation.

**Enforcement and remedies.** The patent holder, and an exclusive licensee, is entitled to bring an action for infringed patent rights before the competent court to:

- i) Establish the facts of the infringement.

ii) Claim compensation for damages and loss of profit.

iii) Stop the infringement.

iv) Re-process or destroy the infringing goods.

v) Have the court judgment published in two daily newspapers at the infringer's expense.

**Length of protection.** Patents are protected for 20 years from the date of filing the application.

On 19th February 2013, in Brussels, 25 EU Member States (except for Spain, Poland and Croatia) signed the Agreement on a Unified Patent Court (the Agreement). The Act on its ratification, adopted by the Bulgarian National Assembly, was promulgated in SG No. 32 of 22th April 2016.

The purpose of the Agreement is to create a specialized patent jurisdiction – a court, along with the already established unitary patent protection in the EU under Regulation (EU) No. 1257/2012 and Regulation (EU) No. 1260/2012 of the Council. The purpose of the Unified Patent Court is to resolve infringement and validity disputes relating to European patents granted under the provisions of the EPC and European patents with unitary effect in the EU, whereas the said shall be common to all Contracting Member States and shall act in accordance with the provisions of the EU law and the European Patent Convention (1973), and its decisions shall be enforceable in any Contracting EU Member State.

## Trademarks

**Definition and legal requirements.** A trademark is a sign capable of distinguishing the goods or services of an individual from those of others and can be represented graphically. Such signs can be words, including names and letters, numerals, drawings, figures, the shape or packaging of the article, a combination of colours, sound signals, or any combination of these. A mark can be a trade mark, a service mark, a collective mark, or a certification mark. The right is acquired by registration and starts from the date of publication for registration.

**Protection.** Trademarks are protected by registration with the BPO and the issuance of a registration certificate. There is no protection for unregistered trademarks.

**Enforcement and remedies.** This is the same as for patents (*see above, Patents*) with the additional possibility of enforcement through an administrative-penal procedure before the BPO.

**Length of protection and renewability.** Protection is for ten years from the date of filing the application. The registration can be renewed for an unlimited number of further ten-year periods.

### 2.5.2.2. Registered designs

**Definition.** The design must be new and original.

**Registration.** The right to an industrial design is acquired by registration with the BPO.

**Enforcement and remedies.** The design right holder, and an exclusive licensee, have independent rights to undertake actions for infringement. The court has similar powers as

those for trade marks (*see above, Patents*). There is an additional possibility of enforcement through an administrative-penal procedure before the BPO.

**Length of protection and renewability.** The length of protection is ten years, after which the registration can be renewed for three additional successive periods of five years each.

### Unregistered designs

**Definition and legal requirements.** The design must be all of the following:

i) New.

ii) Original.

iii) Have been made available to the public, namely to have been published, exhibited, used in trade or otherwise disclosed in such a way that in the normal course of business, these events could reasonably have been known to those in the sector concerned.

iv) The design should not, however, be deemed to have been made available to the public for the sole reason that it has been disclosed to a third person under explicit or implicit conditions of confidentiality.

**Enforcement and remedies.** No registration is required. Unregistered designs can be protected only by EU legislation (*Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs*). Civil claims before the relevant competent court (Community design court in Bulgaria, the Sofia City Court).

**Length of protection.** The length of protection is three years from the date on which the design was first made available to the public.

#### 5.2.2.3. Copyright

**Definition and legal requirements.** A person whose name or identifying mark is inscribed in the customary manner on the original of a work, its replicas or copies, and/or the packaging, is considered its author. An author gains copyright over their literary, artistic and scientific works with the act of creation.

**Protection.** The copyright does not need to be registered. The Bulgarian Copyright and Neighboring Rights Act regulates copyright protection.

**Enforcement and remedies.** The copyright holder, or a person given exclusive user rights, can bring an action against an infringer to:

i) Claim damages immediately resulting from the infringement.

ii) Establish the fact of the infringement.

iii) Stop or ban the illegitimate use.

iv) Seize and destroy illegitimately produced copies of the work, including negatives, master copies, printing forms and other materials.

v) Seize and put out of operation the copying, decoding and reproducing equipment used exclusively for committing violations.

vi) Publish the court judgment in two daily newspapers and screen it on national television at the infringer's expense.

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**Length of protection and renewability.** Protection lasts for the life of the author plus 70 years. For works having two or more authors, the 70-year term starts at the death of the last surviving author. In 2014, a special regime has been regulated regarding musical works with text and dramatic-musical works where the term of protection expires 70 years after the death of the surviving author of the music or the text (regardless of whether the persons are co-authors) provided that the text and the music have been created for the purpose of being used together.

#### 5.2.2.4. Utility Models

Legal protection for utility models granted through registration with the Patent Office. To be registered, utility models must be new, involve an inventive step and be susceptible of industrial application. The term of validity of the registration is four years as of the filing date of the application. It can be extended by two consecutive three-year periods.

#### 5.2.2.5. Supplementary Protection Certificates

As of 1 January 2007, supplementary protection certificates for products enjoying patent protection must be granted under the terms and procedure provided for in Regulation 1768/92/EEC (Regulation (EC) 469/2009) and Regulation 1610/96/EC. The certificate application must be filed with the Patent Office of the Republic of Bulgaria.

# CRITERIA FOR CERTIFICATION



### **III. Investment Incentives**

#### **3.1. Export incentives or guarantees**

There are no specific tax incentives for export of goods out of Bulgaria. Still there exist specific regulative norms as regards the export of definite types of goods such as: narcotics and precursors; weapons and technologies with possible double usage; explosives, shotguns and ammunitions; medicines for the human medicine.

Pursuant to the Export Insurance Act insurance and re-insurance is provided for the account of state credits, guarantees and financial losses related to production and export of Bulgarian goods and services or to Bulgarian investments abroad. The Export Insurance Act introduces the provisions of Council Directive 98/29/EC on harmonization of the main provisions concerning export credit insurance for transactions with medium and long-term cover and Council Directive 84/568/EEC concerning the reciprocal obligations of export credit insurance organizations of the Member States acting on behalf of the State or with its support, or of public departments acting in place of such organizations, in the case of joint guarantees for a contract involving one or more subcontracts in one or more Member States of the European Communities.

#### **3.2. Grants, subsidies or funds your country offers foreign investors**

The Minister of Economy is responsible for ensuring the conduct of the State policy in the field of investments in interaction with the executive authorities. The Minister elaborates a strategy for investment promotion in Bulgaria in cooperation with the executive authorities and stake-holding non-governmental organizations, which strategy is adopted by the Council of Ministers. The Minister of Economy further prepares and implements programs and measures for investment promotion in co-operation with the executive authorities and stake-holding non-governmental organizations. The Minister elaborates and proposes drafts of statutory instruments on promotion of investment activity in Bulgaria, represents the Republic of Bulgaria at international organizations in the field of investments, proposes the inclusion of investment promotion measures in the operational programs co-financed by the funds of the European Union, issues investment class certificates and priority investment project certificates and lays proposals before the Council of Ministers for application of investment promotion measures according to the procedure established by virtue of the Investment Promotion Act. For assisting the Minister of Economy, Invest Bulgaria Agency (IBA) is created in order to support potential local and foreign investors in Bulgaria by providing information, contacts and project management support to investors.

A variety of conditions listed in details in the Investment Promotion Act have to be fulfilled for promoting the investments and for issuance of the respective certificate.

General measures for encouragement of entrepreneurs apply to all class “A” and class “B” investments certified under the new Investment Promotion Act. These include: information services and faster administrative servicing; preferential treatment upon acquisition of property rights and limited real rights over real estate – private state or private municipal property; financial support for vocational training of employees for the needs of the investment project (for investments in high technology activities and in municipalities with unemployment rate equal or higher than the country average); reimbursement of labor costs

paid by the employer. Only Class “A” investment projects enjoy personalized administrative servicing and financial support for infrastructure to the borders of the investment project site. Priority investment projects benefit from the special incentive package provided by the government.

Funding from the EU programs is also available if necessary documents for the project are prepared and the project is considered eligible for financing.

### **3.3. National tax incentives for foreign investors**

#### **3.3.1. Incentives**

The available incentives are restricted and differentiated depending on the type of activity. Generally the tax incentives are regulated as tax reliefs, representing state aid. There are two types of such incentives – regional aid and *minimis* aid.

The regional aid does not apply in respect of taxable persons active in the sectors of transport, coal, steel, shipbuilding, synthetic fibers manufacture, fisheries, as well as primary production, processing and marketing of agricultural products, listed in Annex I to the Treaty on the Functioning of the European, or the respective activity, taxable persons who are placed in liquidation, or are subject to rehabilitation proceedings, or are defined as undertakings in difficulty.

The activity of taxable persons in the above stated sectors could be subject of different kind of aids regulated in a variety of legislative acts depending on the respective sector.

A tax relief constituting *de minimis* aid may not apply in respect of taxable persons who are active in the fishery and aquaculture sector according to Council Regulation (EC) No 104/2000; in the primary production of agricultural products or in the coal sector according to Council Regulation (EC) No 1407/2002. The above tax relief may not apply either in respect of the investment in any road freight transport vehicles, where provided by a taxable person performing road freight transport for hire or reward or investment in any assets used in export-related activities towards third countries or Member States.

#### **3.3.2. Duration**

The incentives are not restricted by the duration of the activity. However, there are certain requirements for the terms within which the investment has to be completed or has to be in process.

#### **3.3.3. Way of Application**

The above incentives are implemented by the investor by retention of corporate tax. Corporate tax retention is the right of a taxable person not to remit the amounts of corporate tax as assessed according to the procedures in the applicable accountancy and tax legislation. The retained tax shall be preserved in the patrimony of the taxable person and has to be spent for purposes prescribed by a law. Retention shall be declared in the annual tax return where the grounds for retention have to be pointed.

### **3.4. Regional tax incentives open to foreign investors**

There are certain tax incentives for the investor that exists only in specific regions of the country.

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On the basis of such incentives any taxable person shall be allowed to retain up to 100 per cent of the corporation tax due therefrom in respect of the tax profit derived thereby from the manufacturing activities carried out, including processing of materials supplied by customers, where the following conditions are simultaneously fulfilled:

- i) The taxable person carries out a productive activity solely in municipalities where the rate of unemployment for the year preceding the respective year of application was by 25 per cent or more higher than the national average for the same period: in the cases of *de minimis* aid;
- ii) The taxable person carries out a productive activity implementing an initial investment project solely in municipalities where the rate of unemployment for the year preceding the year during which an application form for aid is submitted was by 25 per cent or more higher than the national average for the same period: in the cases of regional aid;
- iii) The taxable person maintains not fewer than ten job positions during the entire tax period, with at least 50 per cent of the said jobs being engaged directly in the manufacturing activities carried out;
- iv) During the entire tax period not less than 30 per cent of the staff are persons with a permanent address in municipalities referred to in i) above;

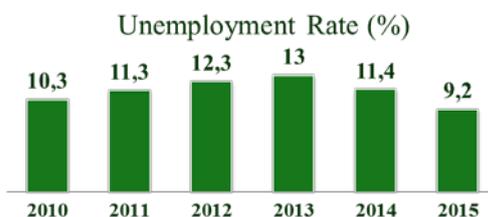
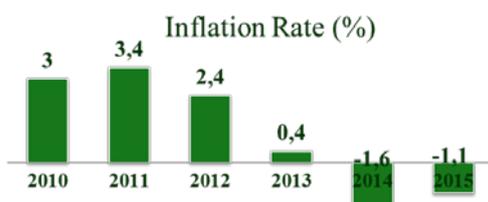
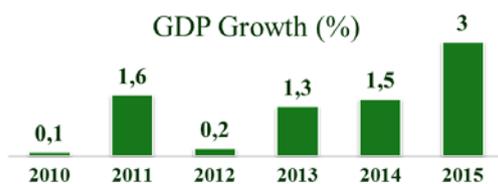
No explicit approval is necessary in order for the investor to be eligible for these incentives. The retention is declared in the annual tax return where the grounds for retention need to be indicated.

No limitation of the duration of the incentive applies.

The incentives are not applicable for taxable persons that carry out activity in certain sectors (please see 3.3.1. above).

## MACROECONOMIC INDICATORS

4



- GDP: 44.16 billion EUR
- GDP per capita: 5 700 EUR
- Budget Deficit: -3.1% of GDP
- Government debt: 27.2% of GDP
- Exports, FOB: 52.1% of GDP
- Imports, CIF: 59.2% of GDP
- Trade balance: -7.1% of GDP

<sup>4</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## IV. Financial Facilities

### 4.1. Banking/Financial Facilities

#### 4.1.1. General Regime

The Credit Institutions Act provides for the existence of banks (credit institutions) and non-bank financial institutions. The subject of activity of the entities operating in the sector is explicitly laid down in the law. For instance, non-bank financial institutions are entitled to perform different types of transactions and to provide variety of services, including: provision of payment services, issuance and administration of other means of payment (payment cards, travelers' cheques and letters of credit), financial leasing, guarantee transactions, factoring, forfeiting, issuance of electronic money, etc.

During the last ten years the volume of the loans provided by non-bank financial institutions is tripled as the market is well established with high level of competition.

#### 4.1.2. Opening of Bank Accounts

There is no mandatory requirement applicable to foreign investors to maintain bank accounts on the territory of the Republic of Bulgaria.

The basic set of documents requested in order for a company bank account to be opened is as follows:

- Certificate of good standing of the company;
- Copy (excerpt) of the Articles of Association of the company indicating the representative powers of the person opening the bank account;
- Signature specimens of the persons entitled to dispose with the funds in the account.

In every particular case the volume of the necessary documentation depends on the specific requirements of the respective bank.

#### 4.1.3. Financial System

Bulgaria is a free market Economy with liberal financial system. There are two main authorities supervising the activities of the institutions operating in the banking sector, namely the Financial Supervision Commission and the Bulgarian National Bank.

#### **The Financial Supervision Commission exercises financial supervision over:**

- activities on the regulated securities markets, activities of the Central Depository, the Investor Compensation Fund, investment intermediaries, collective investment schemes, national investment funds and managing companies, individuals and entities managing alternative investment funds, including entities managing venture capital funds, social entrepreneurship funds or long-term investment funds, natural persons who are directly engaged in securities transactions and investment consultancy, public companies and other issuers of securities explicitly laid down in the respective legislative acts.
- activities of insurers under the Insurance Code and the Health Insurance Act, activities of reinsurers, insurance brokers and insurance agents under the Insurance Code as well as the activity of the Guarantee Fund;

- activities of supplementary social insurance companies and of the funds managed thereby according to the Social Insurance Code.

### **The Bulgarian National Bank:**

The Bulgarian banking system is subject to the legislative framework for the implementation of the new Capital Accord - Basel III in the European Union introduced by the CRR/CRD IV package. The package contains the Capital Requirements Regulation (Regulation (EU) No 575/2013) - directly applicable to the member states, and the fourth Capital Requirements Directive (Directive 2013/36 / EC), transposed into national legislation by the Credit Institutions Act and the legal acts for its implementation, which constitute the legal framework governing the access to the activity, the supervisory framework and the prudential rules for credit institutions and investment firms. The activity of credit institutions is regulated also by Regulations adopted by the European Parliament and the Council, as well as delegated Regulations of the European Commission which are part from the European legislative framework, directly applicable to Bulgaria. These Regulations are binding and must be applied in its entirety across the EU countries. Control over their implementation is carried out by the Bulgarian National Bank and official European institutions (EBA, Commission etc.) The consistent application of the legally binding Union acts, the establishment of high quality common regulatory and supervisory standards and practices are provided also through guidelines and recommendations issued by the European Banking Authority.

Before starting business in Bulgaria, a local bank must obtain a license from the Bulgarian National Bank. For this purpose the bank, its shareholders, members of the management board and supervisory board (or board of directors) should apply the requirements provided in the Credit Institutions Act and the relevant ordinances.

Each credit institution is monitored by means of regulatory reporting and on-site examinations covering its financial position and inherent risks management in lending and other activities. Keeping enough capital adequacy, capital buffers, asset quality and liquidity is of key importance. At a micro level supervision has the task to make sure that every bank is operating in a safe and sound way and possesses sufficient capital resources and reserves to cover the risks arising from its operations. At the same time analyses and studies are conducted of the developments and trends in the banking sector as a whole (macro level) so as to prevent or mitigate systemic risk, to avoid the spillover of adverse effects, and thus the sector would be a stable factor for economic growth.

Aggregated data on the banking system and the groups of banks are disclosed on a monthly basis, and on individual credit institutions – on a quarterly basis. The ongoing analysis of the status of the banking system, which identifies basic trends, risks and weaknesses, is a part of the quarterly bulletin 'Banks in Bulgaria'.

The Bulgarian National Bank registers and monitors the financial institutions carrying out business under the Credit Institutions Act. Also, banking supervision focuses on the compliance with other regulatory requirements and good practices in banking and finance.

#### **4.1.4. Structure of the Banking System**

The banking system in Bulgaria consists in general of banks, bank groups, financial holdings, mixed-activity financial holdings and mixed-activity holdings. For instance, a bank group is present when a bank has as filial companies other banks, non-bank financial institutions or

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banks and non-bank financial institutions. As regards the legal definitions of the other institutions in the sector, all concepts comply with the respective European legislative acts (e.g. Regulation (EU) No. 575/2013), as the Bulgarian legislation is duly harmonized with the European regulations in this sphere.

Supervision on consolidated basis over these types of institutions is exercised by the Bulgarian National Bank.

#### 4.1.5. Stock Exchange

There is a Bulgarian Stock Exchange - Sofia which is currently the only one licensed and functioning stock exchange in Bulgaria. The activities of the stock market are regulated by the Public Offering of Securities Act, Markets in Financial Instruments Act, Commercial Act, Privatization and Post-privatization Control Act and the respective regulations (secondary legislation acts) of the Financial Supervision Commission.

#### 4.1.6. Bank Crediting

Bank crediting is of course available to foreign investors whereas, the specific terms under which a loan could be granted depend on the market conditions and the development of the economy and are freely negotiable.

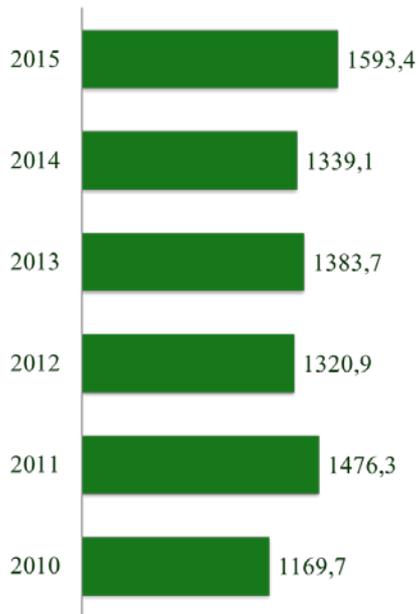
Loans from both foreign and local affiliates come under the same thin capitalization rules.

Thin capitalization rules do not apply for bank loans.

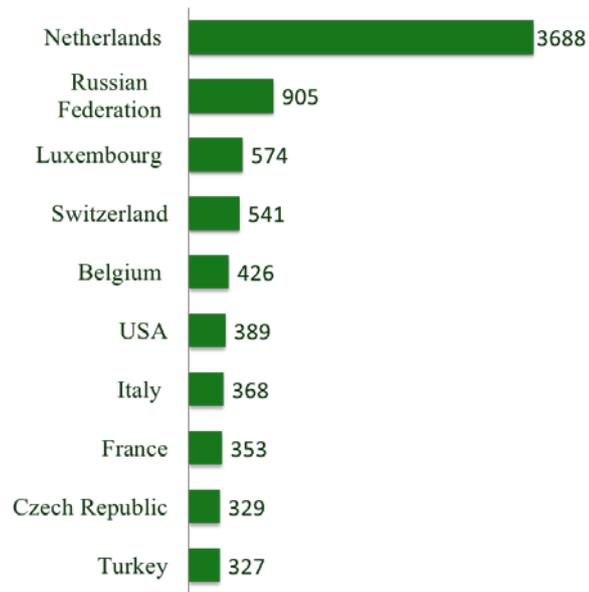
## FOREIGN DIRECT INVESTMENT

5

FDI Inflow, 2010 - 2015 (€ mln.)



FDI by host country, 2010 - 2015 (€ mln.)



<sup>5</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## **V. Exchange Controls**

### **5.1. Business Transactions with Nationals, Residents or Non-Residents**

#### **5.1.1. General Principles**

As a general principle, the concept of nationals, residents and non-residents are different depending on the nature and the purpose of the legislative act, where these concepts are defined.

For instance, according to the Foreigners in the Republic of Bulgaria Act, a foreigner shall be any person who is not a Bulgarian citizen, as well as any person who is not a citizen of any state in accordance with the law thereof.

Pursuant to the provisions of the Foreign Exchange Act (FEA) "local persons" are resident units within the meaning of section 1.30 of Chapter One of Annex A to Council Regulation (EC) No 2223/96 of 25 June 1996. A unit is defined as a resident unit of a country when it has a center of economic interest on the economic territory of that country, i.e. when it engages for an extended period (one year or more) in economic activities on this territory.

Non-resident or foreign persons, according to FEA, are any natural persons or legal entities that are not compliant with the criteria provided for local persons.

Pursuant to the Income Taxes on Natural Persons Act "resident natural person," regardless of nationality, shall be any person:

- i) who has a permanent address in Bulgaria (and also whose center of vital interests is situated in the country), or
- ii) who is present within the territory of Bulgaria for a period exceeding 183 days in any twelve-month period, or
- iii) who is sent abroad by the Bulgarian State, by bodies and/or organizations thereof, by Bulgarian enterprises, as well as the members of the family of any such person, or
- iv) whose center of vital interests is situated in Bulgaria (relevant criteria here are family, property, professional or economic activity, etc.).

Respectively, a "non-resident natural person" shall be any person who does not meet the requirements for a resident one.

The Corporate Income Tax Act lays down another definition of the above mentioned concepts. According to its provisions, "resident legal entities" shall be:

- i) any legal entities incorporated under Bulgarian law;
- ii) any companies incorporated under Council Regulation (EC) No 2157/2001 (European companies), and any cooperative societies incorporated under Council Regulation (EC) No 1435/2003, where additional requirements also apply.

That being said, "non-resident legal entity" shall be any entity which is not a resident one.

#### **5.1.2. Restrictions on Conducting Business with Nationals, Residents or Non-Residents**

The foreigners residing in the Republic of Bulgaria have all rights and obligations according to the Bulgarian laws and the ratified international agreements to which the Republic of Bulgaria is a party except these for which Bulgarian citizenship is required.

For foreigners using diplomatic or consular immunity the generally accepted standards of the international and consular law apply as well as the ratified international agreements to which the Republic of Bulgaria is a party.

### 5.1.3. Reporting Requirements

Upon entry into the Republic of Bulgaria, foreigners are required to declare the purpose of their visit in the country and to state in writing a residence address in Bulgaria, completing a registration card in a standard form approved by the Minister of Interior. This obligation shall not be applicable to foreigners, crossing the territory of the Republic of Bulgaria, as they are not obliged to complete such registration cards.

There are no legally prescribed restrictions and limitations for foreign investors to receive loans from nationals, residents or non-residents.

## 5.2. Investment Controls

### 5.2.1. Restrictions on Direct or Indirect Investment in the Country

Generally, there are no restrictions on direct investment in the country. A foreign investor is entitled to participate or to be a sole owner of the capital of companies established in the Republic of Bulgaria under its laws.

As an exception, according to the Constitution of the Republic of Bulgaria, foreigners or non-resident legal entities may acquire a right to ownership of land under the terms arising from the accession of the Republic of Bulgaria to the European Union or by virtue of an international treaty which has been ratified, promulgated and which has entered into force, as well as through legal succession.

### 5.2.2. Information Requirements on the Nature of the Investment

Investors are in general not required to make declarations regarding the nature of their investments.

However, depending on the structure and the nature of the transactions performed, there might be some declaration obligations provided for prevention of money laundering under the Measures against Money Laundering Act (MAMLA) and the Foreign Exchange Act.

For instance, persons performing a transaction or deal through or with persons/entities exhaustively listed in the MAMLA (e.g. credit institutions, financial institutions, insurers, re-insurers, insurance agents, collective investment schemes, investment intermediaries, leasing entities, National Revenue Agency authorities, etc.) at a value exceeding BGN 30,000 or respectively exceeding BGN 10,000 in cases where the respective payment is made in cash, shall be obliged to declare the origin of the funds. Furthermore, the above mentioned persons/entities are obliged to require such declarations prior to fulfillment of such transaction or deal.

## 5.3. Money Transfer

### 5.3.1. Determination of Exchange Rates

Generally, there is a free determination of the exchange rates. However, it should be taken into account that exchange rate of the Bulgarian currency towards the Euro currency is fixed whereas the official Euro/Bulgarian lev (BGN) exchange rate of the Bulgarian National Bank is Euro 1: BGN 1.95583.

#### 5.3.2. Restrictions on the Transfer of Money Into or Out of the Country

No restrictions apply for the transfer of money into or out of the country. Nevertheless, some obligations of rather informational nature are provided for in the Foreign Exchange Act. Suppliers of payment services shall perform cross-border transfers and payments after they have been presented with a description of the grounds on which the respective transfer is made. A person making a cross-border transfer or payment to a third party in the amount of BGN 30 000 or more, shall provide to the supplier of payment services information and documentation as required by a joint regulation issued by the Bulgarian National Bank and the Minister of Finance.

#### 5.3.3. Restrictions on the Remittance of Profits Abroad

Generally, there are no such restrictions. Still, depending on the specifics of each case, the international tax treaties concluded between Bulgaria and other countries should be considered.

#### 5.3.4. Reporting Requirements

Apart from the information about the grounds of the transfer, suppliers of payment services collect information for the needs of the balance of payments statistics and keep respective registers concerning any transaction or payment between a local and a foreign person, as well as of any cross-border transfer or payment exceeding specific amount as determined by law.

Local legal entities shall be obliged to report, on a quarterly basis to Bulgarian National Bank their receivables from and liabilities to foreign persons, and their direct investments made abroad.

Local natural persons shall report, on an annual basis by 31 March to Bulgarian National Bank their receivables from and liabilities to foreign persons under financial credits if the sum total of such claims or liabilities exceeds the BGN equivalency of BGN 50 000 as of 31 December of the previous calendar year.

Also, transactions in connection with the initial making of direct investments abroad by local legal entities as well as for the purposes of providing credit between local entity and foreign person shall be subject to reporting with the Bulgarian National Bank within 15 days after the transaction is closed.

#### 5.3.5. Rules and Restrictions on Taking of Hard Currency out of the Country

Natural persons may carry unlimited quantities of cash across the border of the country while subject to observance of some obligations.

The regulations in this regard are different depending on whether the transfer of money into or out of Bulgaria is performed for/to countries members of the EU or for/to third countries. The carrying of cash in the amount of EUR 10 000 or more for/to a third country must always be declared before the customs authorities. In contrast, in case the money is carried for/to

countries members of the EU, the declaration obligations are in effect only upon request of the customs authorities.

Furthermore, if the cash is carried across the border of the country to a third country and is in the amount of BGN 30 000 or more, the persons shall also submit a certificate issued by the competent territorial directorate of the National Revenue Agency certifying non-existence of obligations as well as other documentation if requested.

Transfer of cash through postal consignments shall be prohibited with the exception of declared value consignments.

## **VI. Import/Export Regulations**

### **6.1. Customs Regulations**

#### **6.1.1. Memberships in international unions relevant to trade and customs regulations**

Bulgaria has been a member of WTO and of GATT accordingly since 1 December 1996. As of 1 January 2007 it is a member State of the European Union and the EEC accordingly.

Being a member of the EU, Bulgaria has undertaken to follow the customs policy of the EU. Thus, free trade agreements with other countries from the Balkans exist as a part of the EU policy and country accession processes. Particularly, such agreements are in force with the Former Yugoslav Republic of Macedonia since 2004, the Republic of Albania (since 2009) and the Republic of Montenegro (since 2010), where some preferential trade conditions are provided. Also temporary agreements are concluded with Bosnia and Herzegovina (2008) and the Republic of Serbia (2010) regulating trade matters among others.

As a Member State of the EU Bulgaria is bound with the free trade agreement (of 31 December 1995) establishing a Customs Union with Turkey. It covers all industrial products and does not cover agricultural goods services and public procurement.

#### **6.1.2. Evaluation and clearance of goods by customs authorities**

The method of customs valuation is based on the transaction value - price actually paid or payable for the goods when sold for export to the customs territory of the Union, additionally adjusted on the basis of particular specifically listed criteria.

Imported goods need to be presented to the customs authorities upon import in Bulgaria (i.e. in EU) accompanied with an entry summary declaration. On certain occasions simplified customs declaration may be sufficient upon the discretion of the customs authorities. Goods are customs cleared after verification of the particulars in the customs declaration, inspection of the goods by the customs authorities and payment of applicable import duties and taxes accordingly applicable for the particular import.

Customs regimes are regulated by Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (in force as of 1 May 2016) which represents the common legal framework on customs matters applicable to all Member States, including the Republic of Bulgaria.

#### **6.1.3. Applicable tariffs**

Applicable are the tariffs as per TARIC – the integrated Tariff of the European Union. It is a multilingual database in which all measures relating to EU customs tariff, commercial and agricultural legislations are integrated. TARIC ensures equal application of the measures by all Member States enabling all economic operators a clear view of all measures necessary to be undertaken when importing or exporting goods into the EU or from EU. It also allows collecting of EU-wide statistics for the measures concerned. TARIC is accessible on the following link:

[http://ec.europa.eu/taxation\\_customs/dds2/taric/taric\\_consultation.jsp?Lang=en](http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en)

## 6.2. Exports

Generally, the export and/or import controls of certain categories of goods (e.g. products subject to CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora), some cultural goods, products and equipment containing fluorinated greenhouse gases, veterinary controls on animals and food, etc.) could be subjected to restrictions.

Export licenses may apply in specific cases. For instance, subject to import/export control requirements and restrictions are also defence related and possible dual-use items related.

Particular regime and restrictions apply to human blood, plasma and tissues, pharmaceuticals (on certain occasions), narcotic substances and precursors (for medical use), sources of ionizing radiation (if they do not constitute dual-use items), nuclear material, etc.

No particular export duties apply.

## 6.3. Foreign Trade Regulations

All EU regulations, as well as many multilateral and bilateral agreements to which the EU is a party apply and may have impact on various business activities. Therefore, when a particular undertaking is related to the import or export of goods the possible implication of these regulations and agreements should be considered.

## 6.4. Imports

### 6.4.1. Import licenses and applicable duties

Import licenses are required for some specific goods (defense related and dual use items, sources of ionizing radiation, nuclear material, etc.), for import of cereals and rice in EU. Imports are in general subject to the issuing of a standardized import license and payment of the applicable fee.

For certain import good the import fees are determined as variable, for others are fixed.

In pursuance to the EU's commitments under the World Trade Organization (WTO) a number of fixed import quotas are in place at a lower or zero duty.

The applicable import duties are provided for in the integrated Tariff of the European Union – TARIC and are generally fixed as percentage of the value of goods. Some floating duties are provided for as well.

### 6.4.2. Import quotas

Import quotas exist for certain products, mostly of agricultural origin. They rather constitute an exception and allow, during the period of validity of the measure and for limited quantities,

a total waiver (total suspension) or partial waiver (partial suspension) of the regular duties applicable to the import of such goods. In the framework of several agreements that the EU has concluded with third countries, as well as in the framework of autonomous preferential arrangements for some beneficiary countries, tariff concessions are provided for a pre-determined volume of goods - "preferential tariff quotas".

"Autonomous" quotas may also apply which represent tariff suspensions for some economic sectors, where it is necessary to stimulate competition by low tariffs. Their role is to stimulate the economic activity of Union industries, improving competitive capacity, creating employment, modernizing structures etc. They are normally granted to raw materials, semi-finished goods or components not available in the EU (suspensions) or which are available but in insufficient quantities (tariff quotas), but no tariff quotas are granted for finished products.

Antidumping duties are not affected by these suspensions.

#### 6.4.3. Import barriers

Anti-dumping duty may be applied to any dumped product whose release for free circulation in the Community is able to harm the EU market. Anti-dumping measures may be taken by the European Commission upon complaint filed by a European producer. The detailed legal frame of the matter is set through Council Regulation (EC) No 1225/2009 of 30 November 2009 on protection against dumped imports from countries not members of the European Community.

### 6.5. **Manufacturing Requirements**

No manufacturing requirements apply that impose products to contain exclusively ingredients or components, which are found or produced only in the country.

No import limitations apply either permitting importation of certain component parts only provided that they are ultimately incorporated in a final product.

### 6.6. **Product Labeling**

The legislative framework applicable to labeling and packaging is generally based on the provisions of the Bulgarian Consumer Protection Act which is harmonized with the EU consumer protection regime. The legal framework covers the general obligation of merchants to provide consumers with the relevant information about the offered products and services.

In particular labeling/packaging of goods includes few main aspects: products must be labelled in Bulgarian language and mandatorily contain information on the producer and/or importer, the type of the product, its essential characteristics, the minimum date of expiry and the storage conditions and, if necessary, instructions for use. The information contained on the label must be comprehensible, accessible, clear, easily identifiable and not misleading.

There are also many secondary legislative acts dedicated to provide detailed requirements on the labeling of various groups of products like non-food products, food products, chemical products etc. Specific rules apply for labeling of medicinal products, medical devices, food supplements, cosmetic products and others.

## COMPETITIVE COST OF DOING BUSINESS

6



**Industrial Rents(Sofia)**  
**From 2.5 €**  
**(m<sup>2</sup>/month)**



**Office Rents(Sofia)**  
**From 12 €**  
**(m<sup>2</sup>/month)**



**Competitive Cost of Labor**  
**Salary(Min.) - 215 €**  
**Salary(Avg.) - 468 €**



**Electricity**  
**0.069(€/kWh)**



**Gas**  
**0.032(€/kWh)**



**Water**  
**1.09(€/1m<sup>3</sup>)**

**One of the most competitive costs in Europe!**

<sup>6</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## VII. Structures For Doing Business

There are several types of companies in Bulgaria (basically more or less like in every EU country) that include capital and personal corporate entities. Such are the limited partnership, general partnership and limited partnership with shares, the limited liability company and the joint stock company. Here we would mainly consider the two most popular and appropriate forms for doing business, which are preferred and which are namely the capital entities as the others are usually considered to be not very practical and therefore irrelevant in the case of investing and doing business.

Among the two types which are usually selected for doing business – the limited liability company and the joint stock company for larger projects it is normally recommended to use a joint stock company (AD) as a more adequate and prestigious form of corporation. It is also more suitable for 50/50 company as the legal possibilities e.g. for exclusion of shareholders are more limited and better mechanisms for control can be introduced as well as it is easier to transfer shares, etc., even though the limited liability company (OOD) has some lighter elements in the management.

### 7.1. Governmental Participation

#### 7.1.1. Participation of the state in the ownership or operation of the entity

After the democratic changes as a key condition for the overall transformation into a free market economy, an approximately 20-year long process of privatization took place encompassing various privatization methods and technics. At present most of the state owned enterprises are owned by private individuals or legal entities of Bulgarian or foreign origin. The Bulgarian state has preserved control mostly over enterprises of national or strategic importance.

There are no activities and businesses in which the participation of the state or municipalities is regulated as a general precondition.

The state and municipalities participate in single owned companies (limited liability or joint stock companies) established by virtue of respective special laws.

#### 7.1.2. Investor's potential liability

Where the state or municipalities participate in legal entities (commercial companies) in the capacity as single owner or in partnership with private individuals or entities to the extent this is admissible, the liability of the investor is limited to the amount of the latter's participation – see section 7.2.4. and 7.3.4. below.

#### 7.1.3. Restrictions on capitalization

Restriction on capitalization apply in accordance with the regime applicable to the respective legal form of establishment of the particular entity. Specific requirements may apply by virtue of special laws designated to the particular company with state or municipal ownership.

#### 7.1.4. Tax consequences

Please see section XII below.

### 7.2. Joint Ventures

### 7.2.1. General regime

The joint stock company AD (акционерно дружество - АД) or single owned joint stock company (еднолично акционерно дружество - ЕАД) is the other common alternative beside the limited liability company for the establishment and performance of business activity in Bulgaria. It is usually utilized to create certain (even though not absolute) anonymity of the shareholding structure and to create better control mechanisms between the shareholders through the appointment and rules for the functioning of the respective collective management bodies. The minimal capital here is BGN 50,000 (approx. EUR 25,000). The capital of the company has to be transferred into a deposit account in the name of the company prior to registration.

Shares can either be registered, bearer shares or book-entry shares. Preferred shares can also be issued. A share entitles its owner to:

- One vote in the general meeting of shareholders.
- A dividend.
- A share in the assets in case of liquidation (in proportion to the nominal value of the share).

### 7.2.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of a joint-stock company include:

- i) Articles of association of the new company signed by all founding partners respectively by the sole owner of the capital;
- ii) Incorporation protocol (minutes) signed by the founders (the sole owner) deciding on the main parameters of the company such as the name, the commercial activity, the capital and equity shares and the appointed directors accompanied with a list of the founders, certified by the members of the board;
- iii) Resolution for subscription of shares of the competent bodies of the owners of the shares;
- iv) Statement under article 160 of the CA signed on behalf of the founders legal entities;
- v) Resolution of the Board for appointment of executive director/s;
- vi) Notarized statement of consent by the executive director and specimen of his/her signature (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- vii) Notarized declaration from the appointed members of the board of directors for compliance with the conditions of Article 234 of the CA (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- viii) Declaration from the appointed members of the board of directors for compliance with the conditions of Article 237 of the CA;
- ix) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act;
- x) Certificate from the bank for the transfer of the incorporation capital;
- xi) Management contracts.

Besides the said documents if the owners are foreign corporate entities they need to present commercial register excerpts (with a view to point iii) above) that prove that the respective company is duly registered and existing, which are its managing bodies and what rights do they have to represent the company and take decisions in the name of the company e.g. for establishment of a subsidiary. Such excerpts have to bear an Apostille (unless there is a treaty for legal aid with Bulgaria) and then be locally translated and verified, which has to be counted with when time is of the essence. The normal local verification procedure should not last more than a week.

Shareholders agreements are possible with regard to the AD even though they are not explicitly regulated and they could even be subjected to foreign law. Yet, in order to create better preconditions for enforcement and publicity (i.e. presumption to be known to any third parties) of the shareholders agreement it is recommended its provisions to be reproduced also in the articles of association of the company.

The capital of the company has to be transferred into a deposit account in Bulgarian bank in the name of the company prior to registration.

With a view to the time frames for the establishment of a limited liability company, once all necessary documents are at hand and filed with the Commercial Register, the accomplishment of the registration usually takes 3 to 5 working days.

The related expenses are usually up to EUR 500 including notary and state registration fees, bank fees for the opening of an account and issuance of a certificate for paid-in capital.

#### 7.2.3. Participation of a national of the country or a related state

Both, the shareholder(s) and the managing director(s) can be foreigners. There is no mandatory requirement for participation of a Bulgarian national or a related states' (EU, ECC etc.) national as shareholder or managing director. There are no limitations to a company with a single or multiple EU or non-EU owners compared to Bulgarian owned companies, with the exception of certain limitations which may apply with respect to ownership of land, agricultural land, buildings, etc. and certain limitation applicable to owners from jurisdictions with preferential tax treatment.

#### 7.2.4. Investor's potential liability

Investors' potential liability is general limited to the amount of their capital contribution.

Members of management bodies of both AD (joint stock companies) and OOD (limited liability companies) companies can have both civil and administrative liability.

Members of the management bodies of joint stock companies (management board, the supervisory board and the board of directors) can have a civil liability for damages caused by:

- Transactions that have not been sanctioned by a collective body.
- Transactions that go beyond the usual operations of the company or are executed outside normal market conditions.

Administrative liability can arise under the:

- Tax and Social Insurance Procedure Code in case of:
  - ✓ Failure to properly disclose relevant facts to the authorities.

- ✓ Making payments from the company's property in bad faith, constituting a hidden profit or dividend distribution.
- ✓ Transferring any of the company's property for no consideration or for consideration that is substantially lower than the market price.
- Protection of Competition Act if an individual:
  - ✓ Fails to supply information required by the Commission on Protection of Competition. The fine can range from BGN 500 to BGN 25,000; or
  - ✓ Commits or assists a violation. The fine can range from BGN 500 to BGN 50,000.

Criminal liability can arise for crimes against the creditors, including:

- Deliberate bankruptcy.
- Imprudent bankruptcy.
- A failure to request insolvency proceedings where appropriate.

#### 7.2.5. Restrictions on capitalization

The minimum legally prescribed amount of the registered capital of a joint stock company under Bulgarian law is BGN 50,000 (approx. EUR 25,000). With respect to joint stock companies an ex officio termination of the company by the court is provided for when the net value of the company's assets drops below the amount of the registered capital, if within a period of one year the general meeting fails to adopt a resolution to reduce capital, to transform or terminate the company.

#### 7.2.6. Tax consequences

Please see section XII below.

### **7.3. Limited Liability Companies**

#### 7.3.1. General regime

This is the most common legal form for exercising of business activity through a subsidiary in Bulgaria - OOD (дружество с ограничена отговорност – ООД) or respectively EOOD (еднолично дружество с ограничена отговорност – ЕООД) in case of single owner of the capital.

The limited liability company is usually chosen especially in the cases of sole-owned subsidiaries because of the minimum requirements with respect to the registered capital – BGN 2 (approx. one euro), the simple management structure – performed by one or more managing directors managing and representing the company jointly or separately, subject to resolution of the single-owner of the authorized capital and without a collective management body, and the lower expenses for registration (usually up to EUR 250).

Each shareholder must have a share in the company's assets. The amount can either be determined in proportion to the shareholder's interest in the registered capital or otherwise agreed. Each shareholder is entitled to:

- Take part in the management of the company.
- Participate in the distribution of profits.

- Be informed of the company's affairs.
- Review the company's books.
- Liquidation proceeds.

### 7.3.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of a limited liability company include:

- i) Articles of association of the new company signed by all founding partners respectively by the sole owner of the capital;
- ii) Incorporation protocol (minutes) signed by the founders (the sole owner) deciding on the main parameters of the company such as the name, the commercial activity, the capital and equity shares and the appointed managing directors;
- iii) Resolutions of the competent bodies of the owners of the shares for the incorporation;
- iv) Notarized statement of consent by the manager/s and specimen of his/her signature (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- v) Declaration from the appointed manager for compliance with the conditions of Article 142 of the CA and Article 141, Para 8 of the CA;
- vi) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act,
- vii) Certificate from the bank for the transfer of the incorporation capital;
- viii) Management contract.

Besides the said documents if the owners are foreign corporate entities they need to present commercial register excerpts (with a view to point iii) above) that prove that the respective company is duly registered and existing, which are its managing bodies and what rights do they have to represent the company and take decisions in the name of the company e.g. for establishment of a subsidiary. Such excerpts have to bear an Apostille (unless there is a treaty for legal aid with Bulgaria) and then be locally translated and verified, which has to be counted with when time is of the essence. The normal local verification procedure should not last more than a week.

Shareholders agreements are possible with regard to the OOD even though they are not explicitly regulated and they could even be subjected to foreign law. Yet, in order to create better preconditions for enforcement and publicity (i.e. presumption to be known to any third parties) of the shareholders agreement it is recommended its provisions to be reproduced also in the articles of association of the company.

The capital of the company has to be transferred into a deposit account in Bulgarian bank in the name of the company prior to registration.

With a view to the time frames for the establishment of a limited liability company, once all necessary documents are at hand and filed with the Commercial Register, the accomplishment of the registration usually takes 3 to 5 working days.

The related expenses are usually up to EUR 250 including notary and state registration fees, bank fees for the opening of an account and issuance of a certificate for paid-in capital.

### 7.3.3. Participation of a national of the country or a related state

Both, the shareholder(s) and the managing director(s) can be foreigners. There is no mandatory requirement for participation of a Bulgarian national or a related states' (EU, ECC etc.) national as shareholder or managing director. There are no limitations to a company with a single or multiple EU or non-EU owners compared to Bulgarian owned companies, with the exception of certain limitations which may apply with respect to ownership of land, agricultural land, buildings, etc. and certain limitation applicable to owners from jurisdictions with preferential tax treatment.

### 7.3.4. Investor's potential liability

Investors' potential liability is general limited to the amount of their capital contribution.

Members of management bodies of both AD (joint stock companies) and OOD (limited liability companies) companies can have both civil and administrative liability.

There is a civil liability for damages caused to the company:

- In the course of exercising the function of a managing director.
- By engaging in a competitive activity.

Administrative liability can arise under the:

- Tax and Social Insurance Procedure Code in case of:
  - ✓ Failure to properly disclose relevant facts to the authorities.
  - ✓ Making payments from the company's property in bad faith, constituting a hidden profit or dividend distribution.
  - ✓ Transferring any of the company's property for no consideration or for consideration that is substantially lower than the market price.
- Protection of Competition Act if an individual:
  - ✓ Fails to supply information required by the Commission on Protection of Competition. The fine can range from BGN 500 to BGN 25,000; or
  - ✓ Commits or assists a violation. The fine can range from BGN 500 to BGN 50,000.

Criminal liability can arise for crimes against the creditors, including:

- Deliberate bankruptcy.
- Imprudent bankruptcy.
- A failure to request insolvency proceedings where appropriate.

### 7.3.5. Restrictions on capitalization

The minimum legally prescribed amount of the registered capital of a limited liability company under Bulgarian law is BGN 2 (approx. EUR 1). There is an obligation provided for the managing director to convene a general shareholders meeting immediately should the losses

exceed one fourth of the registered capital or when the net value of the company's assets falls below the amount of the registered capital.

#### 7.3.6. Tax consequences

Please see section XII below.

### **7.4. Liability Companies, Unlimited**

#### 7.4.1. General regime

The unlimited character of the liability in this type of company makes it not especially appropriate and therefore seldom used for doing business.

Even though they are not so popular, unlimited liability companies (събирателно дружество – СД) exist under Bulgarian law as a possible structure for doing business in the country.

#### 7.4.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of an unlimited liability company include:

- i) Agreement on the incorporation of the new company signed by all founding partners (at least two; no single-owned unlimited liability company is admissible) – in written form with notary certified signatures;
- ii) Incorporation protocol (minutes) signed by the founders deciding on the main parameters of the company such as the name, the commercial activity, representation;
- iii) Notarized statement of consent and specimen of the signature of the partner(s) authorized to represent the company (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- iv) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act.

Besides the said documents if the owners are foreign corporate entities they need to present commercial register excerpts (with a view to point iii) above) that prove that the respective company is duly registered and existing, which are its managing bodies and what rights do they have to represent the company and take decisions in the name of the company e.g. for establishment of a subsidiary. Such excerpts have to bear an Apostille (unless there is a treaty for legal aid with Bulgaria) and then be locally translated and verified, which has to be counted with when time is of the essence. The normal local verification procedure should not last more than a week.

With a view to the time frames for the establishment of a limited liability company, once all necessary documents are at hand and filed with the Commercial Register, the accomplishment of the registration usually takes 3 to 5 working days.

The related expenses are usually up to EUR 250 including notary and state registration fees.

#### 7.4.3. Participation of a national of the country or a related state

The partners in an unlimited liability company can be foreigners. There is no mandatory requirement for participation of a Bulgarian national or a related states' (EU, ECC etc.)

national as partner or in any other capacity in the company. There are no limitations to a company with a single or multiple EU or non-EU owners compared to Bulgarian owned companies, with the exception of certain limitations which may apply with respect to ownership of land, agricultural land, buildings, etc. and certain limitation applicable to owners from jurisdictions with preferential tax treatment.

#### 7.4.4. Investor's potential liability

The liability of the investor in this type of companies is unlimited and moreover the investor jointly liable with the company towards all creditors of the company.

#### 7.4.5. Restrictions on capitalization

Restrictions on capitalization are not applicable to unlimited liability companies since they are according to Bulgarian law legal entities of non-capital character.

#### 7.4.6. Tax consequences

Please see section XII below.

### **7.5. Partnerships, General or Limited**

#### 7.5.1. General regime

General partnerships (командитни дружества - КД) are also regulated under Bulgarian law as a possibility for structuring of the business. Similar to the unlimited liability companies, they are not very popular as they are not considered as the most appropriate business structure minding the unlimited character of the liability for some of the partners and also the different regime of the partners' liability and participation.

The general partnership is regulated as a partnership between two or more partners, whereas one or several of the partners – complementaries, have joint and unlimited liability, while the other one or several partners bear liability limited to the amount of their agreed participation. The general partnership under Bulgarian law is usually regarded as a combination between the unlimited and the limited liability company.

The limited partnership on the other hand is regulated and regarded as a combination between the unlimited liability and the joint stock company with the main difference from the general partnership being the structuring of the capital. The number of the limited liable partners in a limited partnership is at least three.

#### 7.5.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of an unlimited liability company include:

- i) Agreement on the incorporation of the new company signed by all founding partners (at least two; no single-owned unlimited liability company is admissible) – in written form with notary certified signatures;
- ii) Incorporation protocol (minutes) signed by the founders deciding on the main parameters of the company such as the name, the commercial activity, representation;
- iii) Notarized statement of consent and specimen of the signature of the unlimited liable partner(s) (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);

iv) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act.

Besides the said documents if the owners are foreign corporate entities they need to present commercial register excerpts (with a view to point iii) above) that prove that the respective company is duly registered and existing, which are its managing bodies and what rights do they have to represent the company and take decisions in the name of the company e.g. for establishment of a subsidiary. Such excerpts have to bear an Apostille (unless there is a treaty for legal aid with Bulgaria) and then be locally translated and verified, which has to be counted with when time is of the essence. The normal local verification procedure should not last more than a week.

With a view to the time frames for the establishment of a general or limited partnership, once all necessary documents are at hand and filed with the Commercial Register, the accomplishment of the registration usually takes 3 to 5 working days.

The related expenses are usually up to EUR 250 including notary and state registration fees.

#### 7.5.3. Participation of a national of the country or a related state

The partners in the general and limited partnership can be foreigners. There is no mandatory requirement for participation of a Bulgarian national or a related states' (EU, ECC etc.) national as partner or in any other capacity in the company. There are no limitations to a company with a single or multiple EU or non-EU owners compared to Bulgarian owned companies, with the exception of certain limitations which may apply with respect to ownership of land, agricultural land, buildings, etc. and certain limitation applicable to owners from jurisdictions with preferential tax treatment.

#### 7.5.4. Investor's potential liability

The liability of the investor in this type of companies is unlimited joint liability towards all creditors of the company for the unlimited liable partners - complementaries and accordingly liability limited by the amount of the agreed participation for the limited liable partners.

#### 7.5.5. Restrictions on capitalization

Restrictions on capitalization are not applicable to general partnerships liability (командитно дружество - КД) since they are according to Bulgarian law legal entities of non-capital character.

The restrictions applicable to joint stock companies (see section 7.2.5. above) apply to the ... in limited partnerships (командитно дружество с акции - КДА)

#### 7.5.6. Tax consequences

Please see section XII below.

### **7.6. Partnerships, Undisclosed**

Not regulated under Bulgarian law.

### **7.7. Sole Proprietorships**

#### 7.7.1. General regime

In order to be able to register as a sole proprietor an investor needs to have a place of residence in Bulgaria. This legal form for doing business in Bulgaria is rather unpractical and therefore not recommended because along with the unlimited personal liability restrictions would also apply with respect to the purchase of land by foreign citizen acting as sole proprietor. Thus, the much more appropriate approach would be for the investor to establish a sole owned limited liability company.

#### 7.7.2. Incorporation – procedure, time-frames, related expenses

The sole proprietor is registered with the Commercial Registry where the investor needs to present a submission for registration containing the indicative characteristics of the sole undertaking (name, seat, registered address, object of activity etc.) and a notarized signature specimen.

The establishment of a sole proprietorship usually takes 3 to 5 working days as of the moment of filing of the relevant documentation with the Commercial Registry.

The related expenses are usually up to EUR 50 including notary and state registration fees.

#### 7.7.3. Investor's potential liability

Unlike limited liability companies and joint stock companies which have their own property and assets, separate from the property and assets of their shareholders, the sole proprietor and the investor are not different legal individualities and there is no such differentiation of the property and assets used for personal and for business purposes. Further, as long as the sole proprietorship is not a legal entity separate from the individual being the undertaker, the potential liability of the investor in a sole proprietorship is personal and unlimited.

#### 7.7.4. Restrictions on capitalization

No restrictions on capitalization apply to sole proprietorships.

#### 7.7.5. Tax consequences

Please see section XIII below. Possible are two alternative regimes – tax on the income of individuals or patent tax.

### **7.8. Subsidiaries/Branches/Representative Offices**

#### 7.8.1. General regime

Foreign legal entities who have the right to carry out commercial activity according to their national legislation can establish in the country representative offices. The representative office is registered in the Bulgarian Chamber of Commerce and Industry. The representative office is not a legal entity and cannot carry out commercial activity.

A foreign legal entity which is entitled to carry out commercial activity according to its respective national law can also establish a branch. The branch is registered with Commercial Registry. It does not represent an independent legal entity separate from its mother even though the branch is obliged to have its own bookkeeping.

Foreign companies can also establish subsidiaries in Bulgaria as separate legal entities in one of the legal forms admissible under Bulgarian law. The subsidiaries are registered with the Commercial Registry and their legal regime is the respective regime provided for the relevant legal form of establishment (see 7.2. – 7.6. above).

### 7.8.2. Incorporation – procedure, time-frames, related expenses

The procedure for registration of a representative office takes place before the Bulgarian Chamber of Commerce and Industry and usually takes around 1 week. The costs for registration of a subsidiary depend on the form of the subsidiary (limited liability company, joint stock company, etc.).

The incorporation procedure for the establishment of a branch of a foreign company takes place before the Commercial Registry and usually takes 3 to 5 working days as of the moment of filing of the relevant documentation with the Commercial Registry. The related expenses are usually up to EUR 250 including notary and state registration fees.

### 7.8.3. Participation of a national of the country or a related state

As long as the representative office and branch are not independent legal entities separate from their mother-companies the question about the participation of a national of the country or a related state does not apply to the form of business establishment.

### 7.8.4. Investor's potential liability

The mother-company is liable for all obligations of the branch towards third parties.

### 7.8.5. Restrictions on capitalization

Restrictions on capitalization do not apply with respect to the branches themselves. Such restrictions may apply as far as they apply to the mother-companies.

### 7.8.6. Tax consequences

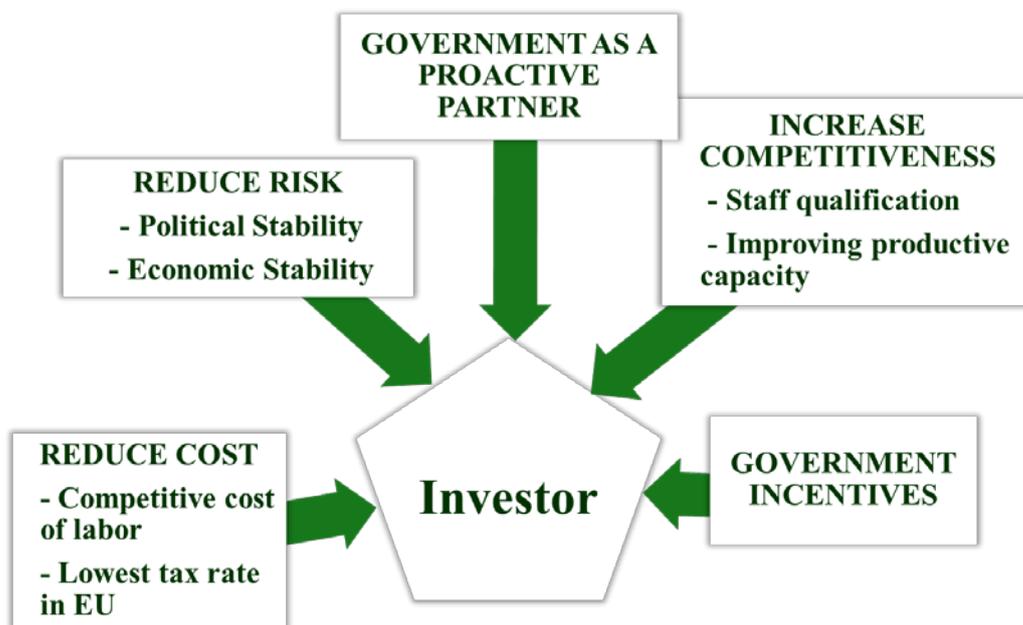
The corporate taxes applicable to the other legal entities established as commercial companies apply to the branches as well – please see section XII below.

## **7.9. Trusts and other Fiduciary Entities**

Not regulated under Bulgarian law.

## WHAT BULGARIA OFFERS

7



<sup>7</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## VIII. Requirements For The Establishment Of A Business

### 8.1. Alien Business Law

In principle, the Bulgarian legislation is applied to the establishment of business in the country. In theory, where international elements exist which according to the rules of international private law result in the application of alien business law, such may be applied. Also, international treaties may apply to certain aspects of business activity.

### 8.2. Antitrust Laws

#### 8.2.1. Restrictive agreements and practices

The Bulgarian Law on Protection of Competition applies to all undertakings and associations of undertakings that operate in Bulgaria, or beyond it (regardless of the place of registration), should they prevent, restrict, or distort competition in Bulgaria.

Liability arising from violations of the Law on Protection of Competition may be administrative and/or civil. There are no criminal penalties for violations of the competition rules.

Restrictive agreements and practices are regulated and Bulgarian law is harmonized with EU competition law. Local regulations, such as Article 15 and 21 of the Law on Protection of Competition, follow Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

#### 8.2.2. Unilateral conduct

The competition law regulates the activities of firms with a dominant market position and prohibits the abuse of such a position. Also here Bulgarian competition law is harmonized with EU competition law and local regulations follow Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

The Bulgarian competition law prohibits actions or omissions by undertakings of stronger bargaining positions when contracting if such actions or omissions:

- Contradict good faith commercial practices and
- Impair or may impair the interests of the weaker party when contracting, or the interests of the consumers.

Actions or omissions that are regarded as not being in good faith include those that:

- Have no objective economic ground, such as unjustified refusal to deliver or purchase goods and services.
- Impose unjustifiably burdensome or discriminatory terms or unjustified termination of the commercial relations.

The existence of a stronger bargaining position is considered depending on the characteristics of the structure of the respective market and the specific legal relationship between the affected undertakings. This is while taking into account the degree of dependence between them, the nature of their activity and the difference of the size of such activity, the probability of finding an alternative trade partner, including the existence of alternative sources of supply, distribution channels and/or clients.

### 8.2.3. Merger Control

A transaction between independent companies (regardless of their place of registration) that results in a permanent change in control exercised over the participants in the concentration, and which affects the Bulgarian market (that is, there is a local nexus), is subject to merger control by the Competition Protection Commission, if the thresholds are met.

A relevant transaction can include:

- A merger or acquisition between two or more independent undertakings.
- When one or more persons who already control at least one undertaking purchase securities, stakes or property, for example through a contract, and gains direct or indirect control over other undertakings or parts of undertakings.
- The establishment of a joint undertaking that permanently performs the functions of an economically independent subject.

Control manifests itself in the acquisition of rights, conclusion of contracts or other courses of action which, independently or jointly, and in view of the existing factual circumstances and applicable law, give decisive influence over an undertaking.

The connection with the territory is assessed according to the turnover realised by the participants in Bulgaria during the preceding financial year.

The concentration is subject to advance notification before the Bulgarian Competition Protection Commission if the sum of the total turnovers of all undertakings participating in the concentration on the territory of the Republic of Bulgaria for the previous financial year exceeds BGN25 million and either:

- The turnover of each of at least two of the undertakings participating in the concentration in Bulgaria for the previous financial year exceeds BGN 3 million.
- The turnover of the undertaking which is the object of acquisition on the territory of the Republic of Bulgaria for the previous financial year exceeds BGN 3 million.

### **8.3. Environmental Regulations**

The business may be subject of such environmental regulation depending on the kind of the performed activity. For example, according to the Environmental Protection Act, the persons wherein the activities involve generation and/or treatment of waste shall be obliged to ensure the recycling and safe disposal of the said waste in a manner that does not present a hazard to human health and to employ methods and modern technologies. Such additional obligation to the investors may reflect on the general costs involved.

### **8.4. Government Approvals**

Explicit government approvals do not apply in general to doing business in the country. There are of course particular regulated fields of activity where explicit permits or approvals may be required for instance banking activity, insurance, health service, transport etc. In such case the term, conditions and procedures for obtaining the necessary permits and approvals depend on the specific type of activity.

### **8.5. Insurance**

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The enterprise is not obliged in principle to carry insurance with the exception of some explicitly regulated types of activities for which a requirement for obligatory insurance including also professional insurance is provided (for example in the sphere of construction works, transportation). In general, the compulsory insurance needs to be established by virtue of a law or by international treaty ratified, promulgated and enforced in the Republic of Bulgaria.

There is no state monopoly on the insurance activity and there are numerous private companies licensed and performing this activity.

### **8.6. Licenses/Permits**

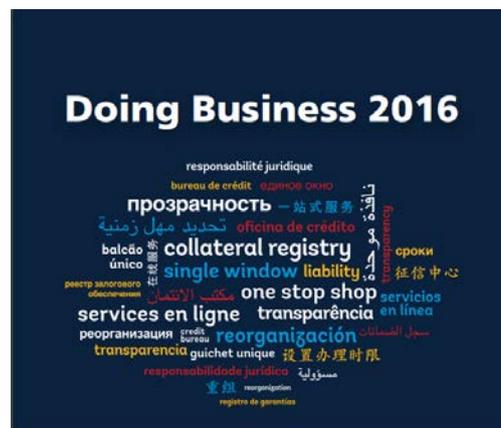
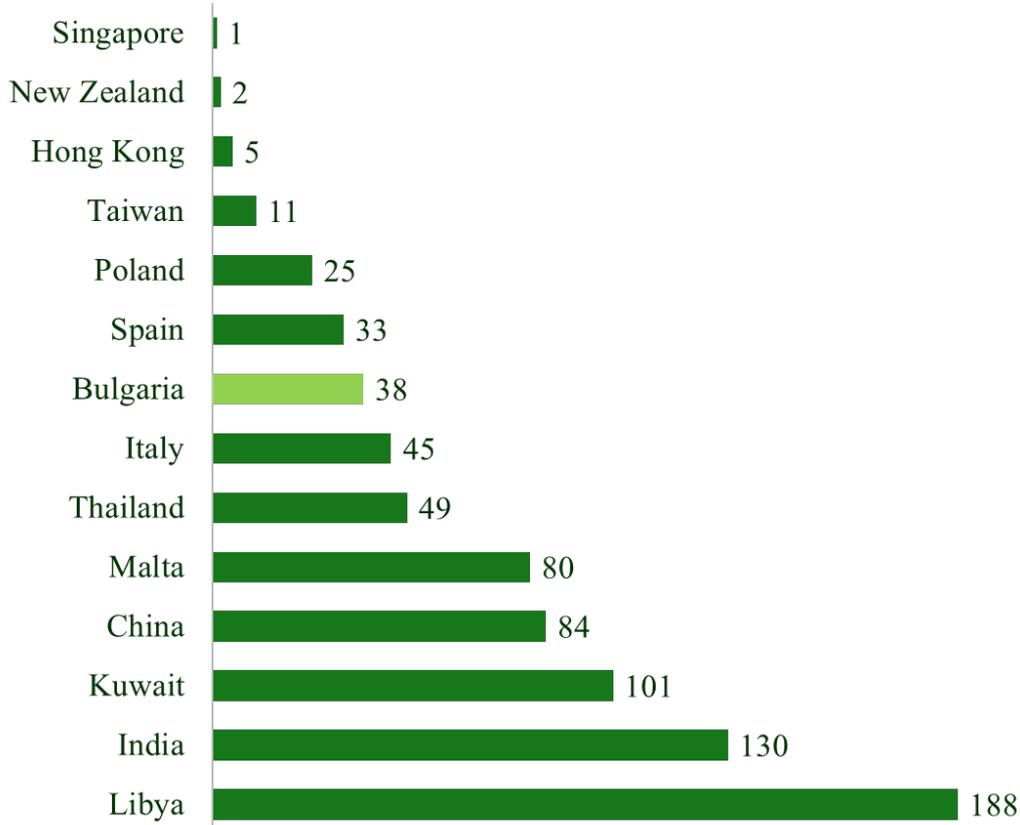
License or permit regime may apply depending on the specific activity performed. Several types of regime may be applied for the different activities:

- i) Registration regimes as far as they may apply require the announcement of the performed activity and the terms and conditions of performance of such activity before the respective competent register;
- ii) Permit or license regimes as far as they may apply require the obtaining of a respective permit or license before commencing the operation the specific field of activity.

The terms and conditions, the related fees, timeframes and procedure applicable to the regime for obtaining permit or license and for registration are different and regulated in the respective specialized legislation.

# BUSINESS ENVIRONMENT

8



<sup>8</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## **IX. Operation Of The Business**

### **9.1. Advertising**

The general regulation of advertising is mainly related to protection of competition and protection of the consumers of some specific products. From the competition perspective, the Bulgarian legislation prohibits misleading advertisement and the prohibited comparative advertisement.

The advertisement which in any way, including by the manner of its presentation, misleads or may mislead the persons it targets or reaches and therefore possibly influences their economic behavior, and thereby harms or may harm a competitor, must be considered misleading.

Comparative advertisement should be any advertisement which directly or indirectly identifies a competitor or goods or services offered thereby. The Competition Protection Act provides for some explicitly described hypothesis where the comparative advertisement should be allowed.

From a consumer protection perspective, the local legislation also provides for limitation of advertisement in the following cases:

- i) Cigarette products;
- ii) Alcohol products;
- iii) Gambling.

Restrictions on advertising apply also to certain professions like for instance to the activity of lawyers, which according to the relevant legal and ethical rules is prohibited to be advertised.

### **9.2. Attorneys**

There is no mandatory requirement to have a local counsel. However, this is very recommendable considering the necessary to have extensive experience and the in-depth knowledge of the local legislation and practice and the business climate and specifics of the country.

It is also possible even though not very popular to use a foreign attorney in Bulgaria, provided that the requirements for the foreign attorney specified in the Attorneys Act have been fulfilled.

Beside the bar association which keeps a public registry of all attorneys and legal offices admitted to act on the territory of the country, there are also different publications from national and international character which publish ranking of the law firms with reputation and experience in particular fields of law.

Also some of the foreign embassies (for example the US embassy) and international chambers of commerce and industry maintain lists of the reputable law firms active in the country.

As far as the amount of attorneys' fees are concerned the minimum amount of attorneys' fees are regulated by virtue of an ordinance of mandatory character issued of the Supreme Bar

Council. The amount and structure of attorneys' fees vary depending on the type of work involved.

### **9.3. Bookkeeping Requirements**

There are mandatory bookkeeping requirements applicable to entities active in Bulgaria. There are annual obligations for publishing of the companies' annual financial statements, consolidated statement if applicable etc. before.

Other general requirements which apply to the bookkeeping include the requirement for the primary accountancy documents of the enterprises to be drawn up in Bulgarian language with Arabic figures and in Bulgarian national exchange currency. The bookkeeping documentation can also be drawn up in the respective foreign language in Bulgarian currency and in foreign currency for transactions contracted in foreign currency with foreign contractors.

The accountancy documents received in the enterprises in a foreign language have to be accompanied with a translation in Bulgarian.

National and certain international accountancy standards apply.

### **9.4. Business Ethics/Codes**

Business and professional ethics codes have been developed and apply in many spheres.

### **9.5. Consumer Protection Laws**

Depending on the specific investor's operations and their dedication at final consumers, consumer protection requirements would usually apply.

Particular significance is placed on product liability and product safety which are regulated by the Consumer Protection Act. The purpose of the Act is to ensure protection of consumers' rights including: the right for information about products and services, the right to obtain redress for damage caused by defective products, the right to access judicial and out-of-court procedures for the resolution of consumer dispute. There is a special Commission for Consumers protection which aims to provide effective control on the consumers' market by applying national and European policies regarding consumers' protection. .

In general, the producer, the distributor and the merchant are responsible for damages caused by stock defects.

Damages can be recovered for:

- i) Death or physical injury;
- ii) Damage to personal property of more than BGN1000;
- iii) All other damage under the civil law rules.

The producer is responsible irrespective of whether they caused the defect.

### **9.6. Construction**

Construction is effected on the grounds and within the parameters of construction permits.

The costs of construction depend on the project and its evaluation.

Construction is carried out in compliance with approved investment designs. The investment designing of certain project starts upon issuing of sketch (visa) for designing. The investment

design is subject to co-ordination and approval by the competent authorities and serves as basis for issuing a construction permit. The construction permit is issued by the chief architect of the municipality and for the towns with district division – upon decision of the municipal council – by the chief architect of the district.

A permission for construction of sites of the technical infrastructure, with a scope of and of significance for more than one municipality, is issued by the regional governor, and the permit for construction of sites with a scope and significance for more than one region and of objects of national importance - by the Minister of Regional Development and Public Works.

The co-ordination of the preliminary design should develop within one month term after receiving of the written request. After such period the investment designs are either approved or returned with instructions for reworking. The approved constructions designs lose their validity in case in one year term after the approval of the investment designs the investor does not make a request to receive permission for construction.

The fees involved are stipulated in a special tariff, issued by the Council of Ministers. Generally the fees are estimated as a percent from the construction value of the site.

Generally, the necessary steps in the construction process go through:

- i. Applying for VISA from the Chief Architect of the Municipality
- ii. Signing preliminary contract with the electricity provider
- iii. Signing preliminary contracts with the water authorities
- iv. Request and obtain preliminary assessment of the building for its compliance with energy efficiency requirements from licensed company – every investment project for construction, reconstruction and modernization, on the basis of which permission for construction is granted, has to be assessed for its compliance with the energy efficiency requirements.
- v. Obtaining decision from the Director of the Regional Inspectorate of Environment and Water - The Law on Environment Protection (Appendix 1 and Appendix 2) defines the investment projects that are subject to an environmental impact assessment
- vi. Obtaining approval of the investment project design from a hygiene epidemiological expert
- vii. Obtaining final construction approval from the Chief Architect of the Municipality
- viii. Signing a contract with a surveillance company
- ix. Signing a contract with water provider and receive connection
- x. Mapping the building on the cadaster
- xi. Construction Surveillance – filing of report on the completed construction
- xii. Registration of a technical passport with the Chief Architect of the Municipality
- xiii. Filing of a copy of the registered technical passport with the Cadastre
- xiv. Requesting and obtaining certificate for energy efficiency
- xv. Inspection by the Municipality

xvi. Obtaining approval of the building and occupancy permit from the Municipality

### **9.7. Contracts**

The general contractual freedom as well as the *pacta sunt servanda* principle as established in most of the continental legal systems are applicable also in Bulgaria.

Investors are free to enter into local contracts and generally the same rules apply to investors as to locals with some exceptions concerning for example the purchase of real estate, agricultural land and certain other spheres of national priority.

The choice of another country's law is possible provided that some international element pertains to the contract (party, place of delivery of the good or service, etc.), following the principles and rules of international private law and as far as there are no particular restrictions within Bulgarian law. Limitations in this respect include for example the rights over real estate, the status of the entities, labor relations, formal requirements for the legal transactions and non-contractual relations.

### **9.8. Price Controls**

Price-formation is free and generally follows the demand and supply principle, except for particular sectors and limited activities which are explicitly regulated under the local legislation, such as electricity transmission and supply, water, gas etc.

### **9.9. Product Registration**

Product registration regimes may apply to certain products like food, alcohol, cigarettes, drugs and medicinal products. The registration is performed before different state authorities depending on the competencies assigned to them according to the applicable laws.

The proceeding of registering, the competent body and the fees involved depend on the type of the product.

### **9.10. Reductions or Return on Capital**

Capital cannot be repatriated while the corporation is still operating and existing, unless a procedure for capital decrease takes place within the legally admissible frames. The effect of capital "repatriation" could also be achieved on annual basis through dividend distribution.

### **9.11. Sale of Goods**

Merchants are free to determine how to perform their trading activity in accordance to the legal requirements for the particular types of goods. There are specific requirements for the places for trade with some goods, for example with foods, medicines, inflammable or explosive materials and goods etc.

### **9.12. Trade Associations**

Trade associations are known and exist under Bulgarian law. Participation in trade associations is nevertheless not mandatory. Such associations allow coordination between independent enterprises as long as such coordination does not fall under the restrictions according to competition protection law under which coordination within such association may be treated as prohibited exchange of information or other type of activity which might infringe the competition by representing prohibited agreement.

Prohibited are all types of agreements between undertakings, decisions by associations of undertakings as well as concerted practices of two or more undertakings having as their object or effect the prevention, restriction or distortion of competition on the relevant market. The prohibition specifies a list of the most common forms of the prohibited conduct which is not exhaustive:

- directly or indirectly fix prices or other trading conditions;
- share markets or sources of supply;
- limit or control production, trade, technical development or investment;
- apply to certain partners dissimilar conditions for equivalent transactions, thereby placing them at a competitive disadvantage;
- make the conclusion of contracts subject to acceptance by the other party of supplementary obligations or to the conclusion of additional contracts which, by their nature or in accordance with commercial usage, have no connection with the subject of the main contract or to its performance.

The general prohibition under Article 15 of the Competition Protection Act is identical to the prohibition of Article 81 of the Treaty establishing the European Community (EC Treaty) and similarly to it declares all agreements and decisions that fall within its scope to be null and void (Article 15 (2) of the Competition Protection Act).

The participation in trade associations may be related with certain annual participation fees or other contributions depending on the agreed terms and conditions for participation in the particular association.

## **X. Cessation or Termination of Business**

### **10.1. Termination**

#### **10.1.1. Liquidation in general**

In the cases of deleting a sole entrepreneur or winding up for reasons of liquidation of local legal entity from the Commercial Register, the tax administration needs to be notified in advance before the application for liquidation is submitted to the Commercial register. Such notification is necessary in order to make sure that the tax authorities will carry out their respective investigation to establish any unsettled tax obligations of the company under liquidation.

In the course of the liquidation procedure also a procedure is carried out before the National Social Security Institute. The aim of such procedure is to finalize any outstanding social security obligations of the company under liquidation and the collect the necessary documentation and information concerning former employees of the company under liquidation.

At the date of entry of the dissolution in the Commercial Register corporate tax shall be due which is assessed on the basis of the tax profit of the company for the period from the beginning of the respective year until the date of entry of the dissolution. The tax shall be remitted within thirty days after the date of entry of the dissolution. The corporate tax remitted

upon dissolution is deducted from the annual corporate tax due for the year of dissolution or from the corporate tax due for the last tax period.

The shares in a liquidation surplus, if distributed to foreign companies, shall be taxed with a withholding tax of 5% or 10% depending on the specific requirements stipulated in the Corporate Income Tax Act.

#### 10.1.2. Costs involved

Mandatory registration costs of approximately BGN 160.00 would apply for the registrations and announcements which need to be made before the Commercial Registry. Other costs depend on the case, such as remuneration of the appointed liquidator, legal support, accounting advisors, etc.

#### 10.1.3. Time-frames

The expected minimum time-frame for the accomplishment of the liquidation procedure under Bulgarian law, provided that the company is free of assets, liabilities and receivables, which would need to be cashed out, would be not less than 7 months.

There is a mandatory minimum legal term of 6 month for the invitation to the company's creditors to be available at the Commercial Registry. Such legal term could not be avoided.

In the remaining 1 month of the estimated time-frame there need to be taken into account: the technical terms (usually 3-5 working days for each separate case) necessary for the notification of the competent tax authorities, the registration of the opening of the liquidation procedure, the publishing of the invitation to the creditors and the registration of the deletion of the company.

Besides, it needs to be taken into account that although the tax authorities usually act within 1 week, the legally prescribed term for them to issue a certificate confirming their notification of the planned liquidation procedure is 60 days. Thus, as far as the obtaining of such certificate is a precondition for the initiation of the liquidation in the Commercial Register, theoretically the procedure could legally be delayed with such 60 days-term, i.e. in worst case scenario 9 months.

10.1.4. The procedures for liquidation of the most common forms for exercising business activity in Bulgaria – the limited liability company and the joint-stock company, are relatively similar and in general include:

##### 10.1.4.1. Resolution of the general meeting on the dissolution of the company and opening of liquidation procedure

The liquidation procedure is initiated with the adoption of resolution by the company's general meeting of the shareholders for (1) dissolution of the company, (2) opening of liquidation procedure and determining its term, (3) appointment of liquidator and determining the liquidator's remuneration.

##### 10.1.4.2. Commencement of the liquidation procedure

Upon the liquidator's appointment the latter has to notify the local office of the National Revenue Agency about the resolution for dissolution of the company, which notification is a mandatory precondition for the registration of the opening of the liquidation procedure with the Commercial Register at the Recordation Agency. At this stage the law does not explicitly

provide for an obligation of the tax authorities to perform tax audit of the dissolved company. However, it is in the discretion of the tax authority to decide whether such audit should be performed.

The dissolution of the company, the opening of liquidation procedure, as well as the name of appointed liquidator are subject to registration with Commercial Register. Upon completion of this registration, the liquidator becomes a lawful representative of the company and the phrase “in liquidation” is added to the company’s name indicating the existence of an on-going liquidation procedure with respect to the company.

#### 10.1.4.3. Announcement of an invitation to the company’s creditors to claim their receivables

The invitation is prepared by the liquidator, addressed in writing to the identified creditors, as well as announced in the Commercial Register, which is considered as invitation to the creditors of the company, who have not been identified yet at that stage.

#### 10.1.4.4. Determining the value of the company’s property

It is the liquidator’s obligation to identify the properties of the company, to determine their amount and to complete an initial balance sheet as of the date of dissolution, as well as explanatory report to the balance sheet. Prior to completing the balance sheet, the liquidator should perform an inventory and evaluation of each separate asset and property of the company.

#### 10.1.4.5. Satisfying of company’s creditors

Upon ascertaining the value of the company’s property, the liquidator has to finalize any ongoing transactions and collect the company’s receivables, to cash in the available property and satisfy the company’s creditors. At this stage the liquidator may conclude new contracts in the name and on behalf of the company only to the extent this appears necessary for the purposes of the liquidation procedure.

For the sake of comprehensiveness, it should be noted that Bulgarian laws provide for a possibility separate assets of the property of a company in liquidation to be transferred to single owner or the creditors of the company, if the latter agree, and provided that the rights of the remaining creditors and shareholders shall not be affected by that.

Upon satisfying the claims of the creditors the non-collectable receivables of the company may be written-off.

#### 10.1.4.6. Distribution of remaining assets

Distribution to the shareholders of the assets of the company that have remained after all claims of creditors have been satisfied (or secured in case of pending litigations) is possible only upon expiration of at least six months as of the announcement of the invitation to the creditors in the Commercial Register.

At this stage of liquidation process the liquidator has to prepare a closing balance sheet, which is approved by the general meeting of the shareholders.

Also at this stage the liquidator should be released from liability for his/her actions also by means of explicit resolution of the general meeting of the shareholders.

#### 10.1.4.7. Closing of the liquidation procedure. Deletion of the company

Having settled all outstanding obligations of the company and ensured distribution of the remaining company's assets to the general meeting of the shareholders, the liquidator may request deletion of the company as legal entity from the Commercial Register. For this purpose, the liquidator files respective application to the register accompanied by evidence that the liabilities of the company have been settled as required by law and that all other statutory requirements concerning the liquidation process have been met.

Beside the above steps the business can be terminated without a specific government approval or intervention. Particular regulated fields of activity may of course require specific additional approvals and permits.

If in the course of liquidation the company turns out unable to cover its obligations with the funds and assets available bankruptcy proceedings have to be initiated. The bankruptcy proceedings are regulated as universal enforcement mechanism against the entire property of the company aiming at providing equitable satisfaction of creditors and opportunities for institution of recovery procedures in order to avoid bankruptcy proceedings as far as possible.

Bankruptcy proceedings create mechanisms to involve all creditors including among other the state and the debtors' employees.

## **10.2. Insolvency/Bankruptcy**

10.2.1. Generally, in limited liability companies and joint stock companies, the liability of the investor is limited to the amount of the latter's participation in the capital. In this respect, in case of insolvency the creditors of the company shall be satisfied through the property of the company and the personal property of the investor shall hardly be affected (regardless whether the investor is a natural person or legal entity).

Nevertheless, as far as the bankruptcy proceedings create the possibility certain transactions (part of them involving related parties) to be declared under particular circumstances null and void, the theoretical possibility for the property of shareholders to be indirectly affected remains.

Besides, pursuant to the law in case of insolvency or over-indebtedness the managing body of the company is obliged to file a petition for institution of insolvency proceedings within 30 days. The petition shall be submitted by the debtor, through the latter's manager or managing body, respectively liquidator of a company or through a partner with unlimited liability. Possible liability may be borne by the investor if the investor is involved in the management of the company and fails to observe this obligation. In such the investor as a part of the management of the company shall be liable jointly and severally before creditors for damages caused by such failure. Hypothetically criminal liability cannot be excluded in such case.

### 10.2.2. Possibility for recovery proceedings within the bankruptcy

In order to avoid bankruptcy recovery proceedings are available before the creditors and the debtor. Within such proceedings rescheduling of certain payments may be agreed, release from liability in full or in part, reorganization of the enterprise, or undertaking of other appropriate acts or transactions are possible upon the decision of the creditors.

The right to propose a recovery plan can be exercised by:

- i) The debtor;
- ii) The receiver in bankruptcy
- iii) The creditors holding at least one -third of the secured claims;
- iv) The creditors holding at least one -third of the unsecured claims;
- v) The partners, the stockholders respectively, who hold at least one -third of the capital of the debtor company;
- vi) An unlimited partner;
- vii) Twenty percent of the total number of the debtor's workers and employees.

The above persons may propose more than one recovery plan in the bankruptcy proceedings.

Upon the decision for affirmation of the plan, the court discontinues the bankruptcy proceedings. In certain cases however when the debtor does not fulfil the obligations under the recovery plan, the creditors may request a renewal of the bankruptcy proceedings.

## **XI. Labor Legislation, Relation And Supply**

### **11.1. Employer/Employee Relations**

#### **11.1.1. Legal Framework**

The Bulgarian Labor Code (State Gazette No. 26/01.02.1986) regulates employment relationships irrespective of the employees' nationality. Most of its provisions are mandatory and cannot be excluded by choice of law or even by the common will of the parties. The Labor Code covers the regulation on commencement and termination of employment, the working hours, breaks and vacations, payment of wages and employment disputes. A lot of bye-laws regulate the vacations, sick leave, the employment remuneration, business trips, and so on. The health and safety conditions at work are regulated by a specific Act (Act on the Health and Safety Conditions for Work). There is very strong protection for employees as well as even higher protection for some employees (for example: the employees in the maternity leave, mothers of small children, disabled persons, etc. They can be released only after the permission of the Labor Inspectorate Agency.).

The most recently adopted Labor Migration and Labor Mobility Act sets provisions for the access to the labor market of employees who are third country nationals for example through an intra-corporate transfer or the issuance of a blue card for high-skilled workers.

#### **11.1.2. Employment Agreement**

A written form of the employment agreement is required. The agreement must include the job position, working hours, remuneration, the term of the advance notice for termination and the workplace. The mandatory provisions of the Labor Code apply, as well as collective agreements if such exist on national, branch or enterprise level.

#### **11.1.3. Mandatory Training**

In principle, training of employees for a certain job position is not a mandatory requirement. However, the Health and Safety Conditions at Work Act provides for obligations of the

employer with respect to health and safety requirements which may require mandatory training of the workers and employees to work with certain equipment or to observe approved procedures and working methods.

## **11.2. Employment Regulations**

### **11.2.1. Hiring of Nationals**

In case an investor wishes to hire personnel from a third country (outside the EU, the EEA or the Swiss Confederation) there are mandatory requirements under the Labor Migration and Labor Mobility Act regarding the maximum percentage of foreign workers. The act provides that the total number of third country nationals working for a local employer (investor) over the past 12 months could not exceed 10% of the average number of Bulgarian /EU Member State/the EEA Member State/the Swiss Confederation nationals hired on an employment contract. The 10% requirement does not apply with respect to high skilled employees are concerned.

Moreover, to employ a foreign national (outside the EU, the EEA or the Swiss Confederation), an employer must prove there is no available Bulgarian or EU/EEA professional qualified for the job.

### **11.2.2. Minimum Wage**

The minimum monthly wage is determined with the Annual State Budget Act and is currently set to the amount of BGN 420 (approximately EUR 215).

### **11.2.3. Maximum working hours**

The standard working week regulated by the law is 5-day with a normal duration of the weekly working time of up to 40 hours. The normal duration of the working time during the day is set to up to eight hours. The duration of the daily and weekly working time may only be extended as an exception within certain limits under the terms and conditions provided by the law.

### **11.2.4. Mandatory Vacation and Sick Leaves**

The minimum duration of the regular annual paid leave (vacation) is 20 working days per calendar year. There is no limitation of maximum number of sick days. There are however special provisions with respect to procedures and authorities that may establish temporary or permanent incapacity.

## **11.3. Hiring and Firing Requirements**

### **11.3.1. Hiring of employees**

#### **11.3.1.1. Establishing an employment relation**

The employment relation is established through the concluding of a written employment agreement (please see p. 11.1.2. above).

Employment agreements may be concluded either for a fixed-term as an exception (only in the cases explicitly envisaged in the law) or for an unlimited-term as a general rule.

For example, the fixed-term employment agreement could be concluded for completion of particular work, for temporary replacement of an employee who is absent from work, etc. The fixed-term employment agreement could be concluded also for execution of casual, seasonal

or short-term work and activities and the term of the agreement could not be longer than three years.

By way of exception, even if it is not a matter of casual, seasonal or short-term work, fixed-term employment agreement for a period of not less than one year may be concluded, and upon written request of the employee – for a period less than one year. However, such employment agreement may be concluded only once with the same employee for the same type of work.

#### 11.3.1.2. Probation period

The probation period should be no longer than six months. The probation period could be stipulated in favour of the employer, where the employer is entitled to terminate the labor agreement with immediate effect at any time during the probation period without owing compensation to the employee. Lacking such explicit statement the probation period is considered stipulated in favour of both parties (i.e. each of the parties is entitled to terminate the labor agreement within the probation period and without giving prior written notice and giving a reason for the termination).

#### 11.3.1.3. Specifics

The employer and the employee are free to stipulate: (i) working from distance, (ii) mixed mode of work as well as (iii) transfer from working remotely to working at the employer's premises.

No mandatory requirement for employment of a minimum number of employees exists. Neither is there a requirement for nationals to hold particular positions in the company.

A requirement for a minimum number of nationals employed in the enterprise follows from the rule applicable to the proportion of national and non-national employees (please see p. 11.2.1. above).

#### 11.3.1.4. Non-employment relations

Persons, hired under management contracts as the managing director of the company do not enjoy the rights and preferences of the employees under the Bulgarian Labor Code and therefore the specific regulation of the yearly paid and unpaid leaves, the redundancy protection, the specific grounds for termination of the agreement, etc., do not apply to the management contracts. Notwithstanding the fact that the company's managing director is made equal to the employees with respect to the social insurance effects of his engagement, the managing directors is not working under an employment relationship and can be freely dismissed at the discretion of the company's single owner.

#### 11.3.2. Termination of individual employment agreements

Several possible grounds for lawful termination of an employment contract are set out according to the Labor Code, as:

- i) by mutual consent;
- ii) on expiry of the agreed term;
- iii) with advance notice by the employee;

iv) dismissal (with or without notice) by the employer due to the closure of the company, or part of it, reduction of volume of work, when the employee does not possess the required professional qualification, etc.;

v) termination upon the proposal of the employer with a minimum compensation of 4 (four) salaries (has to be accepted by the employee).

An unlawfully dismissed employee can claim in court indemnification and restoration to the job.

In case of unlawful termination, the employee is entitled to dispute the dismissal before the employer or the court without paying any fee and claim for:

- i) The dismissal to be pronounced unlawful and be revoked.
- ii) Reinstatement to the job position.
- iii) Compensation for the period of unemployment due to the dismissal (up to 6 months).
- iv) Correction of the grounds for the dismissal, as reflected in his work book.

#### 11.3.3. Redundancies and mass layoffs

There are procedures concerning redundancies and mass layoffs in the Labor Code. In case of mass layoffs, the employer must consult the trade union, the employee representatives and the Employment Agency and make efforts to:

- i) Reach an agreement to avoid the mass layoff;
- ii) Reduce the number of employees affected;
- iii) Mitigate the consequences of the dismissals.

Before these consultations, the employer is required to provide employee representatives with information on the reasons for the layoffs, the number of employees to be dismissed, and so on. This information is also sent to the National Employment Agency.

#### 11.3.4. Preservation of employment relations in case of reorganization of the employer

##### 11.3.4.1. Transfer of employment relations

The Bulgarian Labour Code stipulates that, in the event of a change of the employer within the hypothesis of transformation of entities, assignment or transfer of operations by one company to another, including the transfer of tangible assets, employment relations with workers and employees shall be retained, whereby the rights and obligations of the employer-transferor prior to the change, which rights and obligations arise from the employment relations as at the change date, shall be transferred to the new employer-transferee.

As far as the obligations of the former employer towards the employees are concerned, which have arisen before the date of the change, the liability for such obligations are to be born according to the law jointly by the former and the new employer.

##### 11.3.4.2. Automatic effect of the transfer

The effect of the transfer follows automatically by virtue of the law. Thus, it is not necessary new employment contracts to be signed with workers and employees, since the currently

existing employment contracts including all terms and conditions thereof are retained by virtue of the law.

Of course, if the new employer wishes to make amendments to the employment contracts, an annex amending the respective employment contract can be executed with each worker/employee upon mutual consent.

#### 11.3.4.3. Obligation for notification

Before the actual change is conducted, the law obliges the former and new employer to provide their respective workers and employees (in the case of the newly established subsidiary provided that there are any employees appointed) with information about:

- the contemplated change and the date of its realization;
- the reasons for the change;
- the possible legal, economic and social consequences for workers and employees resulting from such change;
- any measures foreseen with respect to workers and employees.

This information has to be presented at least 2 months prior to the contemplated restructuring.

Provided that there are no trade union organizations in the former employer and no employees' representatives are appointed, the notification has to be addressed to all persons concerned, i.e. practically all employees.

#### 11.3.4.4. Notification of the tax authorities

Within three days after the modification of the employment contracts, the new employer or a person authorised thereby is obligated to accordingly notify the relevant territorial directorate of the National Revenue Agency of the change.

### **11.4. Labor Availability**

On the Bulgarian labor market there is a relatively high percentage of skilled and high qualified specialists in different fields of economics. University degree of education is also relatively high.

The salary standards in most sectors in Bulgaria are in general lower than in other EU countries. Yet some spheres offer competitive even on international level remunerations considering the exceptionally high qualification of the specialists in the fields such as IT specialists, visual artists and engineers.

On the other spectre, the usually multilingual qualification of Bulgarian specialists (mostly fluently using the main EU languages) in different spheres has resulted in numerous multinational companies establishing in the country their service and so called contact centres that offer customer support and sales services to countries throughout the world.

In addition, with the recent amendments in the Vocational Education and Training Act new opportunities are set for employers and employees for vocational training conducted by means of training through work (dual system of instruction). The dual system is a form of partnership between professional/secondary schools or colleges and one or more employers. The purpose of that legislative measure is in two aspects: on the one hand, to ensure better

skilled and effective workers to benefit the employers and on the other hand, to ensure better working opportunities for the workers and employees.

### **11.5. Labor Permits**

Labor permits are required only for foreign nationals except for nationals of EU member states or nationals of a EEA member state and for other categories of foreign nationals (permanent residents, persons who have been granted refugee status etc.).

To employ a foreigner, an employer must prove there is no available Bulgarian or EU/EEA professional qualified for the job.

Permits for foreign nationals are issued by the Employment Agency after an application is filed by the employer accompanied with certain documents as listed in the law.

The basic requirements for obtaining a work permit for third country nationals are:

- i) to have a labor contract with Bulgarian employer;
- ii) the total number of foreigners working for the employer not exceeding 10 % of the average annual number of Bulgarian citizens or EU citizens working for the same employer;
- iii) the employee must prove specialized knowledge, skills and professional experience necessary for the relevant position;

Access is only permitted on an individual basis, to a particular individual, and for the place of work, position and duration of employment as stated in the labor permit issued by the competent authorities. Hiring third country nationals is admitted only for positions for which Bulgarian nationality is not required.

The competent state authority to grant a permit is the Executive Director of the Employment Agency within a term of 30 days from the filing of the application for access to the labor market.

The procedure for obtaining a work permit usually takes 2-3 months. The fee for issuance of work permit for one foreign national is BGN 600 (about EUR 300) not including additional expenses which may arise.

### **11.6. Safety Standards**

The safety standards are explicitly regulated in the Labor Code and in a number of secondary legislative acts, which beside the mandatory legal requirements provided for the existence in the enterprise and the compliance with particular internal rules and policies covering the main aspects of safety at work.

### **11.7. Unions**

The unions of employees and employers are recognized under Bulgarian law and existing in the practice.

Employees are entitled, with no prior permission, to freely form, by their own choice, trade union organizations; to join and leave them on a voluntary basis, showing consideration for their statutes only.

The aim and function of trade union organizations is to represent and protect employee's interests before state bodies and employers as regards the issues of industrial and social-

security relations and living standards through collective bargaining, participation in tripartite co-operation, organization of strikes and other actions within the law.

Employers on the other hand are also entitled, with no prior permission, to freely form, by their own choice, organizations to represent and protect them, as well as to join and leave them on a voluntary basis, conforming only to their statutes.

The employers' organizations aim at representing and protecting employers' interests through collective bargaining, participation in tripartite co-operation, and through other actions within the law.

Trade union organizations and employers' organizations are entitled, within the limits of the law, to autonomously draw up and adopt their statutes and rules, to freely elect their bodies and representatives, to organize their leadership, as well as to adopt programs of action.

Trade union organizations and employers' organizations define their functions freely, and perform them pursuant to their statutes and the law.

The bodies of trade union organizations in the enterprise are entitled to participate in the drafting of all internal rules and regulations which pertain to industrial relations, and the employer is obliged to invite them to do so.

There is in general no political affiliation of trade unions.

The organization of unions is voluntary and employers are not obliged to organize such. Nevertheless, mandatory rules apply which guarantee the participation of employees and workers in the enterprise's management when the number of employed in the enterprise certain numbers. The employer is obligated to co-operate with the employees' representatives in the discharge of their functions and to create conditions for implementation of their activities.

Usually, the main mechanisms through which trade unions achieve their purposes are the collective bargaining, ensuring more favourable work conditions for the employees involved.

With respect to the above the individual employer, the group of employers, and their organizations are obliged:

i) to negotiate with the employees' representatives for the conclusion of a collective agreement;

ii) to make available to the employees' representatives:

- the collective agreements concluded which bind the parties on the basis of industry, territorial or organizational affiliation;

- timely, true and understandable information on their economic and financial position which is relevant to the conclusion of the collective agreement; provision of information whereof the disclosure could cause injury to the employer may be refused or granted subject to a requirement of confidentiality.

A particular specific represents the provision of the law according to which in case of transformation, re-organization or transfer of business the existing collective agreement remains valid with respect to the new employer until conclusion of a new collective agreement, but for not more than one year after the date of change of the employer.

## TAXATION RATE

9

Country	Income Tax (%)		Social Security (%)		VAT (%)
	Corporate	Individual	Employer	Employee	
Bulgaria	10	10	17.4-18.5	12.9	20
Serbia	15	10-20	16.9	16.9	20
Romania	16	16	28.45	16.5	24
Hungary	10 / 19	16	28.5	18.5	27
Czech Rep.	19	22	34	11	21
Poland	19	18/32	22.14	13.7	23
Turkey	20	15-35	27	15	18
Slovakia	23	19-25	34.8	13.4	20
UK	23	0-45	13.8	12	20
Italy	27.5	23-43	30	10	21
Spain	30	24, 75-52	29.9	6.35	21
Germany	30-33	14-45	19.7	20.6	19
France	33.33	5.5-41	50	20	19.6
Cyprus	12.5	20-35	7.8	7.8	19

<sup>9</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## **XII. Tax On Corporations**

### **12.1. Allowances**

#### **12.1.1. Major allowances**

The taxable profit is the positive value, determined on the basis of the accrued financial result, which is established as a difference between the income and the expenses, not including the taxes on account of the profits, and adjusted in accordance with the provisions of Corporate Income Tax Act.

When establishing the taxable profit for tax purposes, depreciation allowances are determined in compatibility with the accounting depreciation quota. The depreciation amount is established for categories of assets by systematically applying the straight-line depreciation method.

For tax purposes the assets subject to depreciation are grouped into the following categories:

- i) I category - steady buildings, including investment properties, facilities, communication devices, electricity carriers, communication lines;
- ii) II category - machinery, manufacturing equipment and apparatus;
- iii) III category - transportation vehicles, excluding automobiles; surfacing of roads and runways;
- iv) IV category – computers, peripherals, software and right to use software, mobile phones;
- v) V category – automobiles;
- vi) VI category - taxable tangible and intangible assets for which a limited period of use is envisaged within a contractual or statutory obligation;
- vii) VII category - all other assets subject to depreciation.

For tax purposes for taxation of profits, the depreciation rates may not exceed the following:

Category of Assets	Annual Depreciation Rates - %
I Category	4
II Category	30
III Category	10
IV Category	50
V Category	25
VI. Category	100/years of legal period. The annual rate shall not exceed 33 1/3
VII. Category	15

#### **12.1.2. Major deductible items**

Generally, expenses are deducted from the accounting result (shall be recognized for tax purposes) if they are related to the business activity of the entity and are duly supported by appropriate accounting document. For example, recognized for tax purposes are donations in extent up to 10 percent of the positive accounting result before its transformation for tax purposes, provided that some conditions are fulfilled and if the donation is made in favour of educational, medical and healthcare institutions, budget enterprises, specialized child institutions, persons with disabilities and other public institutions or persons, explicitly listed in the law. Deductible are also expenses for donations in extent up to 50 percent of the accounting profit if the donation is made in favor of the Fund for Medical Treatment of Children Centre and the Assisted Reproduction Fund Centre

The taxable persons are entitled to deduct part of the losses transferred from past years from their financial result of the current year, if it is positive. Deduction may be made within the next 5 consecutive years after the loss has incurred until the complete deduction of the loss.

Deductible is the profit from transactions with shares of public companies and tradable rights of assets in transactions carried out on a regulated Bulgarian market of securities, formed as a positive difference between the sale price and the documentary proven price of acquisition of the respective financial asset;

Deductible are also:

- i) the dividends received as a result of distribution of the profit among local persons and unregistered partnerships;
- ii) the tax acknowledged size of the expenses for depreciation for the current period and presented in the tax depreciation plan;
- iii) the negative differences originating from the acknowledgement of charged interest;
- iv) the levied expenses related to accumulating unused leaves and the calculated sums for obligatory public and health insurance related to them during the period of account, during which the leaves have actually been paid to the personnel etc.

### 12.1.3. Major expenses that are excluded from deductibility

The major expenses excluded from deductibility are:

- i) any non-business expenses;
- ii) any expenses which are not duly supported by documents;
- iii) any expenses on fines charged, forfeitures and other sanctions imposed for violation of normative acts, any default interest charged for late payment of public state or municipal debts;
- iv) any expenses which constitute hidden profit distribution as per the provisions of the CITA
- v) some interest costs - interest costs are normally deductible on accrual basis, subject to the limitations provided in the Bulgarian thin capitalization rules. The latter apply to substantially all forms of financing, except for: 1) any interest payments on financial leases and bank loans, except where the parties to the transaction are related parties or the lease or the loan, as the case may be, is guaranteed or secured by or is extended on the order of a related party; 2) any penalty charges for late payments and damages; 3) any interest unrecognized for tax purposes on other grounds in Corporate Income Tax Act. Under the thin capitalization

rules, if the debt-equity ratio of the taxpayer does not exceed 3:1 as of the end of the respective calendar year the interest costs can be deducted for tax purposes in full. If the debt equity ratio is higher than 3:1, then the maximum tax deductible portion could not exceed the sum of the interest income of the taxpayer and 75% of the accounting financial result before all expenses on interest payments and income from interest receivable. The portion that appears to be non-deductible in the current year can be carried forward and deducted in the following five years, subject to the formula described above.

## **12.2. Calculation of Taxes**

The taxable base for the purposes of the corporate tax (10 %, applied in a uniform manner for all taxable persons, regardless of the economic sector and the legal form of the economic activities carried out) equals the tax profit, which the company has achieved during the respective tax period. By transformation of the accounting financial result a tax financial result should be formed where a positive tax financial result shall be a tax profit, i.e. the tax base for determination of corporate tax is the accounting financial result, adjusted for tax purposes. The adjustments are related to items that lead to increase of the financial result (for example non-deductible expenses) or items that are to be deducted from the financial result for tax purposes and therefore lead to decrease of the entities' financial result (for example incomes from dividends distributed by a BG tax resident entity or by a foreign entity that is tax resident in an EU/EEA Member State).

The tax base for determination of the final taxes levied at source (withholding taxes) depends on the type of the income and may equal the market value of the taxable interest income, the positive difference between the selling price and the documented acquisition price (for incomes accruing from transaction in financial assets and immovable property), the positive difference between the market value of the claim by the relevant shareholder and the documented acquisition costs for the shares (for liquidation quota), etc.

## **12.3. Capital Gains**

National tax on capital gains applies – 10% withholding tax.

There are no regional taxes on capital gains, only national tax of 10% withheld at source for capital gains by non-resident legal entities (for resident entities capital gains should be included in the overall accounting financial result, subject to further adjustments for tax purposes).

Only certain types of income of foreign legal entities, originating from a source in Bulgaria, and subject to withholding tax, are treated as capital gains. This is the withholding tax levied on income deriving from transactions in financial assets (except for certain transaction explicitly listed in the law – for instance transactions in financial assets when traded on a regulated market or when concluded according to the procedure of repurchase or redemption by collective investment schemes admitted to public offering in BG or in another EU/EEA Member State or concluded according to the procedure of tender offering in BG or in another EU/EEA Member State, etc.) and on income from disposition of immovable property.

Corporations are not subject to municipal or local taxes in capital gains.

## **12.4. Filing and Payment Requirements**

Local corporations are obliged to submit their annual tax return in the respective territorial tax directorate of the National Revenue Agency no later than March 31 of the following tax year. When legally prescribed requirements are met, attached to the annual tax return should be filed also an annual activity report.

In case of winding up or transformation, the tax liable persons are to file a tax return for the tax due within 30 days of the date of entry of the dissolution in the Commercial register, respectively the transformation.

The corporate tax for the relevant year have to be paid no later than March 31 of the following calendar year, after deducting the amounts of the advance payments made on monthly and quarterly basis.

Taxable persons should make monthly or quarterly prepayments of corporation tax based on a projected tax profit for the current year. Such prepayments shall not be made by taxable persons whose net turnover for the last preceding year does not exceed BGN 300,000 as well as newly incorporated taxable persons, for the year of the incorporation thereof (some exceptions may apply).

That being said, monthly tax prepayments should be made by taxable person whose net turnover for the last preceding year exceeds BGN 3,000,000, whereas quarterly tax prepayments should be made by all taxable persons who are not obliged to make monthly tax prepayments. The determination of the amount of the monthly and quarterly prepayments is subject to a specific formula provided for in the Corporate Income Tax Act.

For the months January, February and March monthly tax prepayments should be remitted not later than the 15th day of April of the current calendar year. For all months until the end of the year this obligation should be fulfilled not later than the 15th day of the month to which the said prepayments apply.

On a separate note, quarterly tax prepayments for the first and second quarters should be remitted before the 15th day of the month succeeding the quarter to which the said prepayments apply, whereas for the third quarter this obligation should be performed not later than the 15th day of December.

In contrast to the above, quarterly tax prepayment should not be made for the fourth quarter.

## **12.5. Miscellaneous Taxes Due**

No tax on capital, nor apprenticeship tax or training tax apply under Bulgarian laws to corporations/legal entities.

No business license tax applies to corporation/legal entities either. Such tax is envisaged for natural persons only.

Other types of tax which are applied to corporations/legal entities include local taxes on acquired property and donations, withholding taxes on dividends and other incomes deriving from a source in Bulgaria, value added tax.

The filing and payment requirements vary depending on the type of the tax. For instance, for incomes on which withholding tax at source is levied the tax return should be submitted and the tax due should be remitted till the end of the month next succeeding the respective quarter in which the income has been charged or in which the decision on distribution of dividends has been taken.

## **12.6. Registration Duties**

### **12.6.1. Due upon incorporation of a company**

No other tax or duties arise upon the incorporation of a company itself different from the state registration fees which have to be paid upon incorporation of a new entity. Their amount depends on the type of company which is being established varying between BGN 50 (approximately EUR 27) and BGN 1,300 (approximately EUR 665).

### **12.6.2. Due upon an increase of capital**

A fixed fee for registration of the increase with the Commercial Register has to be paid in the amount of BGN 15-30 (approximately EUR 8-16).

### **12.6.3. Due upon transfer of the company's shares**

There are registration fees due which vary depending on the type of company the shares of which are subject to transfer.

### **12.6.4. Due upon transfer of corporate assets**

Tax duties arise in case of transfer of corporate assets depending on the structure of the transaction and the type of assets, which is being transferred. Besides the registration with the Commercial Register, which may be necessary depending on the type of the transferred assets (for example transfer of the commercial enterprise) the VAT Act envisages a compulsory VAT – registration for persons acquiring goods and services as result of non-cash contribution in consideration of a capital allotment in a commercial company, transfer of commercial enterprise or transformation of a commercial company. Business licenses tax for example is payable in four equal quarterly installments.

### **12.6.5. Other**

All significant changes in the legal status of a company have to be duly registered with the Commercial Register where the respective fee has to be paid.

## **12.7. Sales Tax or other Turnover Tax**

### **12.7.1. VAT**

In Bulgaria the sales tax is Value added tax. Generally, it is due for any supply of goods or services with place of delivery on the territory of the country. The Value Added Tax Act is completely in compliance with the applicable European acts. It regulates intra-community deliveries and acquisitions, supplies of goods and services between Bulgarian taxable persons, registration under VAT, documentation etc.

The VAT Act provides for mandatory and voluntary registration. Mandatory registration is applicable to persons with turnover of 50 000 BGN or more for a period not exceeding twelve consecutive months last preceding the current month.

Generally, a registered person is entitled to deduct from its tax liabilities credit for input tax in respect of goods or services received thereby in a taxable supply. The person shall have the right to deduct credit in the amount of the VAT in respect of goods or services which have been supplied to it by suppliers provided that the suppliers are also registered under VAT.

When for certain tax period the total sum of the tax credit exceeds the total sum of the tax calculated by the registered person, the difference represents tax which should be refunded.

### 12.7.2. Rates

There are three value added tax rates apply: zero rate (for certain supplies explicitly pointed out in the VAT Act), 9 per cent (applicable to accommodation provided in hotels and similar establishments) and 20 per cent rate (the general rate).

### 12.7.3. Filing and payment requirements

For every tax period, the registered person shall submit a VAT return where the supplies performed to and by the person are reflected. "Tax period," is the period of time upon the lapse of which a registered person must submit a VAT return indicating the net tax for the respective tax period. Generally the tax period is fixed as one month in respect to all registered persons except in cases provided for in the VAT Act. The registered person is obliged to remit the tax to the State budget (account of the competent National Revenue Agency territorial directorate) within the time limit for submission of the VAT return for the respective tax period.

## **12.8. Social Security and Welfare System Contributions**

The legal framework envisaging the main regulations applicable to social security and welfare system contributions is provided for in the Social Insurance Code and the Health Insurance Act as well as in numerous secondary legislation acts.

As a general principle individuals and employers are subject to compulsory social insurance contributions due for insurance against common disease and maternity (3,5%), disability due to a common disease, old age or death (12,8%), industrial accidents and occupational diseases(0,4%), and unemployment (1%).

Social insurance contributions are calculated and due on the received (including charged in the accounts but unpaid) monthly remuneration, or on the monthly remunerations not charged in the accounts, however not less than the respective minimum contributory income as determined each year with the Public Social Insurance Budget Act and not exceeding the maximum monthly amount of the contributory income.

Employers are obliged to periodically provide to the National Revenue Agency data regarding the income, with respect to which social insurance contributions are due, the very social insurance contributions and the due tax under the Income Taxes on Natural Persons Act.

The social insurance contributions shall be remitted by the social insurance contributor (employer) on or before the 25-th day of the month following the month when the work has been performed. Social insurance contributions for persons working without entering into an employment relationship shall be remitted by the assignor (social insurance contributor) on or before the 25-th day of each month succeeding the month when the remuneration has been paid.

## **12.9. Special Tax Schemes**

No special tax schemes are provided for under Bulgarian law.

## **12.10. Tax on Profits**

The only national (state) tax on profits is the corporate tax at the rate of 10% (please see p. 12.3. above). No regional or municipal tax on profits applies.

## **12.11. Tax Treaties**

Bulgaria has concluded more than 65 treaties for the avoidance of double taxation, including most of the EU member states. The most significant include:

The US;

China;

Japan;

Germany;

France;

The UK;

Italy;

Switzerland;

Spain;

Russia;

The Netherlands;

Luxembourg;

Most of the former members of the Soviet Union.

List with the treaties for the avoidance of double taxation could be found on the following website: <http://www.nap.bg/en/page?id=530>

### **12.12. Territoriality Rules**

All resident legal entities are liable to taxes in respect of the profits and income realized from all sources inside and outside the Republic of Bulgaria.

Non-resident legal entities are liable to taxes for the profits realized through a permanent establishment in the Republic of Bulgaria or from disposition with property at any such permanent establishment, as well as for the income realized from a source inside the Republic of Bulgaria in cases explicitly laid down in the Corporate Income Tax Act.

### **12.13. Treatment of Tax Losses**

The loss shall be deducted consecutively during the following five tax years. The losses shall be deducted at determining the taxable profit up to the amount of the positive financial result before the tax loss is deducted. If the positive result of the following year is not sufficient, the remaining part of the losses shall be deducted during the next years following the same scheme.

Newly incurred tax losses are carried forward in the order in which they have been incurred, in the course of their incurrence. For each newly incurred loss the respective 5-year period starts at the beginning of the year next succeeding the year of incurrence of the loss.

Foreign-source losses can be carried forwarded solely against foreign-source losses, except for (a) losses that have been formed from a source in another EU/ EEA Member State and the tax credit method applies, (b) upon suspension of the activity of a permanent establishment in another EU/EEA Member State, when the exemption with progression tax method applies – losses of the permanent establishment that have not been carried forward

and have not been recovered shall be deducted in the course of the 5 subsequent years from their incurrence according to the standard procedure prescribed in the law.

#### **12.14. Wealth Tax**

There is no wealth tax applicable under Bulgarian law.

#### **12.15. Withholding Taxes**

##### **12.15.1. Withholding tax on profits realized by a foreign corporation**

The withholding tax rate is 10 %. Foreign corporations are generally obliged only to withholding tax on incomes from:

- i) Interests, including also interests contained in the payments for financial leasing;
- ii) Royalties and license remunerations;
- iii) Remunerations for technical services;
- iv) Incomes use of chattels and immovable property, remunerations for contracts for exploitation leasing, franchising and factoring from sources in the Republic of Bulgaria.
- v) Remuneration under management contracts;
- vi) Remuneration received as members of managing and control bodies of Bulgarian legal entities.

CITA envisages for foreign legal persons, who are resident persons for tax purposes of an EU/EEA - Member State the possibility to opt for a recalculation of the withheld tax on some incomes explicitly listed in the law. Where such person opts for a recalculation, it shall be made in respect of all types of income as pointed above, realized thereby. The tax as recalculated shall be equal to the corporate tax which would have been due on such incomes if they were realized by a resident legal person, i.e. some costs associated with getting the income shall be taken into consideration. Where the tax withheld at source as remitted exceeds the amount of the tax as recalculated, the difference shall be refundable up to the amount of the tax withheld at source, which cannot be deducted from the tax due in the state where the person is considered resident for tax purposes.

##### **12.15.2. Withholding tax on dividends**

Dividends paid by resident legal persons to non-resident legal persons (except where such dividends accrue through a permanent establishment in the country) are subject to a withholding tax of 5% (except dividends paid to legal persons who are resident for tax purposes in an EU member state or in another state which is a contracting party to the EEA agreement).

Dividends received are subject to corporate tax at 10% and the right to use foreign tax credit in respect of the tax imposed abroad on the gross amount of the income from dividends.

Dividends received from an EU/EEA tax resident are excluded from taxable income.

##### **12.15.3. Withholding tax on interest**

Interest paid to foreign corporate shareholders is subject to 10% withholding tax, unless a double tax treaty or I+R Directive apply.

Interest on loans from affiliates can be deducted from a company's gross income for accountancy purposes, provided the interest payable does not exceed 75% (3:1 debt-to-equity ratio) of the company's gross income before all expenses and income from interests.

The interest in excess of this limit is deducted from the taxable profit during the next five years until they are depleted.

#### 12.15.4. Withholding tax on royalties

Royalties paid to foreign corporate shareholders are subject to 10% withholding tax, unless a double tax treaty or I+R Directive apply.

### **XIII. Tax on Individuals**

#### **13.1. Allowances**

According to the Income Taxes on Natural Person Act, for the purposes of taxation Taxable Persons are both "Resident natural persons" and "Non-resident natural persons".

As "Resident natural persons" regardless of nationality, is regarded any person:

- i. who has a permanent address in Bulgaria, or
- ii. who is present within the territory of Bulgaria for a period exceeding 183 days in any twelve-month period, or
- iii. who is sent abroad by the Bulgarian State, by bodies and/or organizations thereof, by Bulgarian enterprises, and the members of the family of any such person, or
- iv. whose center of vital interests is situated in Bulgaria.

The "Resident natural persons" are taxable for income acquired thereby from sources inside and outside Bulgaria, where the "Non-resident natural persons" are taxable for income acquired only from sources inside Bulgaria

Foreign citizens staying in Bulgaria, solely with the purpose of studies or medical treatment, and the foreign experts are taxable for their income from sources in Bulgaria regardless of the term of stay.

When a person – foreign citizen, staying in Bulgaria solely for the purpose of studies or medical treatment, acquires a status of permanent resident or extends the period of his stay upon conclusion of the medical treatment or education, such person is to be considered local person from the day of acquiring the status of permanent resident, respectively from the date of extension of the term of temporary stay.

A final tax is levied on the following income from a source inside Bulgaria, charged/paid in favour of any non-resident natural person, where not realized through a fixed base within the country:

- i. any compensations for lost profit and damages of such nature;

- ii. any scholarships for study in Bulgaria and abroad;
- iii. any interest payments, including interest within payments under a lease contract except for interest on bonds or other debt securities, issued by the state or municipalities and admitted to trade in a regulated market in Bulgaria or a European Union Member State, or another country which is party to the Agreement on the European Economic Area;
- iv. any income from rent or from other onerous provision for use of movable or immovable property, including any payments under a lease contract which does not expressly provide for transfer of the right of ownership to the property;
- v. any payments received under franchising agreements and factoring contracts;
- vi. any copyright and license royalties;
- vii. any technical assistance fees;
- viii. any remunerations for activity performed within the territory of the country by non-resident natural persons who are public figures, or such active in science, art, culture and sports, including where the income has been paid/charged through a third party, such as a performer-management agency, a production company and other intermediaries;
- ix. any income from management and control, from participation in management and supervisory bodies of enterprises;
- x. any income from sale, exchange or other onerous transfer of immovable property;
- xi. any payments under a lease contract which expressly provides for transfer of the right of ownership to immovable property;
- xii. any income from sale, exchange or other onerous transfer of shares, interests, compensation instruments, investment vouchers and other financial assets.

### **13.2. Calculation of Taxes**

The taxable income and the taxable amount shall be determined for each source of income separately depending in the specifics of the source of income and according to the respective rules provided in the law

### **13.3. Capital Gains Tax**

Any income subject to levy of final taxes according to the procedure established by the Income Taxes on Natural Persons Act or of final taxes according to the procedure established by the Corporate Income Tax Act, as well as any income subject to levy of a license tax/or tax on passenger taxi transportation, according to the procedure established by the Local Taxes and Fees Act, shall be excluded upon determination of the taxable income.

### **13.4. Filing and Payment Requirements**

The annual tax return shall be submitted before or on the 30th of April at latest of the year next succeeding the year of acquisition of the income. Since 2015, when submitting the annual tax return on or before the 31<sup>st</sup> of March of the next succeeding year by electronic means, the person shall enjoy a rate rebate of 5 per cent of the balance of tax due under the

annual tax return, provided that the said person does not incur any public obligations subject to coercive enforcement by the time of submission of the return

Both Resident and Non-resident natural persons may be obliged to submit annual tax report on various grounds, specified in the applicable law. The persons who carry out economic activity in a merchant capacity within the meaning given by the Commerce Act, including any sole entrepreneurs, shall present an annual financial statement, including the notes thereon, together with the annual tax return.

The enterprises and the self-insured persons, that are payers of income and that have withheld the final tax on income charged/paid to non-resident persons, shall declare the said circumstances by a tax return completed in a standard form.

Such tax return shall be submitted by the person who has acquired the income where the payer of the income is not obligated to withhold and remit the tax.

The tax return shall state particulars of the payer of the income, irrespective of who has submitted the return.

Such tax return shall be submitted not later than the end of the month next succeeding the quarter for remittance of the tax.

As far as the payments of tax due on the income from employment or assignment relations are concerned, in general the tax has to be paid by the employers and the assignor simultaneously with the drawing or the bank transfer of the sums for salaries and/or other remuneration from the bank account of the employer/assignor, and for cash payments - by the 10th day of the next month. The advance payment has to be determined and payed on a monthly basis, but not later than on the 25th day of the month next succeeding the month in which the tax was withheld.

Where the payer of the income is not obligated to withhold and remit the tax, the tax shall be remitted by the person who has acquired the income, on or before the 25th day of the month next succeeding the quarter of acquisition of the income.

### **13.5. Inheritance and Gift Tax**

#### **13.5.1. Inheritance tax**

With a tax on the inheritance shall be levied the inherited properties according to law or according to a will in the country or abroad belonging to Bulgarian citizens and the properties in the country belonging to foreign citizens.

The properties of individuals without citizenship shall be levied as properties of Bulgarian citizens if their permanent residence is in the territory of the country.

Subject to levying with tax are the movable and immovable property of the ancestor and the rights on any such property, as well as the ancestor's other property rights, receivables and obligations at the time of the opening of the succession, save as otherwise explicitly provided by law.

Inheritance tax shall furthermore be levied on any property devolving directly on a third party in the event of death of the ancestor pursuant to a contract concluded by the ancestor.

Inheritance tax shall not be paid by the surviving spouse and by the lineal heirs without limitation.

### 13.5.2. Gift / donation tax:

Such tax shall be levied on any properties acquired by donation, as well as on any onerously acquired immovable, limited rights in rem thereto, and motor vehicles.

Any property acquired gratuitously in any manner other than by donation as well as any liabilities extinguished by remission are also subject to tax.

No tax shall be levied on any properties acquired by donation between lineal relatives and between spouses.

Such tax shall be levied also by gratuitous acquisition of real estate or limited real estate rights by prescription.

Where the transferee of the property is abroad, the transferor shall be liable for the payment of tax.

### 13.5.3. Rates

**Inheritance tax:** The rate of the inheritance tax is determined by the respective the Municipal Council separately with respect to each heir or legatee, as follows:

- i. applicable to siblings and the children of siblings: from 0,4 to 0,8 per cent per portion in excess of BGN 250,000;
- ii. applicable to any persons other than such referred to in the above item: from 3,3 to 6.6 per cent per portion in excess of BGN 250,000.

Allowances are available under particular terms and conditions.

**Gift / donation tax:** Upon donation of property, the tax shall be charged on the assessed value of the transferred property in an amount determined by the respective local Municipal Council by an ordinance as follows:

- i. from 0.4 to 0.8 per cent: applicable to donations between siblings and the children of siblings;
- ii. from 3.3 to 6.6 per cent: applicable to donations between any persons other than the persons referred to in the above item.

### 13.5.4. Payment and filing requirements

**Inheritance tax:** At opening of the inheritance the tax obliged persons or their legal representatives shall within 6 months submit a declaration with the territorial tax directorate at the last residence of the grantor and if the latter has had residence abroad – at the location of the greater part of his property in the country.

The tax must be paid in 2 months term after receiving the announcement.

**Gift/donation tax:** The tax must be paid in 2 months term after receiving the announcement.

## 13.6. Miscellaneous Taxes Due

### 13.6.1. There are different local taxes which exist collected by Municipalities:

- i. tax on immovable property;

- ii. inheritance tax;
- iii. transport vehicles tax;
- iv. gift tax;
- v. tax on onerous acquisition of property;
- vi. license tax;
- vii. visitor tax;

**13.6.2. Local fees are due for:**

- i. household waste;
- ii. use of markets, market place, fairs, pavements, squares, street lanes;
- iii. use of kindergartens, camps, hostels, social care homes and other forms of social services;
- iv. technical services;
- v. administrative services;
- vi. raising of dogs;
- vii. buying out grave places;
- viii. raising and upbringing activities in the compulsory pre-school education to be used by the kindergarten or the school beyond the activities financed by the state;
- ix. general support activities within the meaning of the Pre-school and School Education Act, which are not financed from the state budget and which are carried out by personality development support centres.

**13.6.3. Filing and payment requirements**

The tax on the immovable properties is paid in two equal parts in the following periods: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due. To those who pay in advance for the whole year within the first term a discount of 5% is made.

The owners of the vehicles have to declare to the territorial tax directorate at the place of their permanent address, respectively headquarters, the vehicles owned by them in one month term after acquiring them. The tax shall be paid in two equal parts in the following terms: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due. To those who pay in advance for the whole year within the first term a discount of 5% is made. For vehicles acquired during the current year the tax is paid in one month term after the date of acquisition in extent of 1/12 of the annual tax for each month till the end of the year, including the month of acquisition.

The rest of the above taxes shall be payable according to a procedure established by the respective Municipal Council

**13.7. Real Estate / Habitation Tax**

The amount depends on the location, characteristics and designation of the property. The tax shall be paid in two equal parts in the following terms: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due.

### **13.8. Sales Tax**

The VAT regime applies to individuals as well as described under p. 12.7. above.

### **13.9. Social Security and Welfare System Contributions**

The social security and welfare system contributions apply to individuals as well as described under p. 12.8. above.

The social and health security payments for the state public insurance that are for the account of the insurers are paid simultaneously with the payment of the due remuneration or part of it.

The insurance payments for the self-insuring are paid personally or through insurance funds till the 25th date of the month following the one they are due for.

### **13.10. Stock Option, Profit Sharing and Savings Plans**

The other generally regulated tax regimes (see entire section XIII) may apply depending on the particular terms and conditions agreed with respect to the stock option, profit sharing and savings plans.

### **13.11. Taxation of Benefits in Kind**

The taxable income from legal terms of employment and from the legal relations equalized with them includes all payment, including awards in cash and/or in kind by the employer or for the account of the employer, received by the taxable persons for the calendar month.

Excluded from taxation under particular terms and conditions are:

- i) the value of free of charge protective food, antidotes and personal protective means according to the Labor Code and other laws as well as the value of the free of charge food for the staff on duty implementing 12 hours' shifts at the health establishments, of the operation teams and of the teams for collecting of blood.
- ii) the cost of the special working clothes, the free working and uniform clothing provided according to the Labor Code and other laws, of the representative and uniform clothes provided for the civil servants and for other persons for whom the law provides the right of receiving such clothes;
- iii) business trip money; compensations for moving;
- iv) some compensations;
- v) the cost of the transport fares from the place of residence to the place of work, provided free by the employer;
- vi) the social expenses for the account of the employer;
- vii) the remuneration for temporary working incapacity;
- viii) some awards under the Law for the Defense and the Armed Forces of the Republic of Bulgaria;

- ix) the general supplies and accoutrements ensured in pursuance of the Ministry of Interior Act, the Republic of Bulgaria Defense and Armed Forces Act, and the State Agency for National Security Act;
- x) any additional food expenses which are paid in lieu of per diem expenses to factory and office workers in road transport and rail transport, in dining cars, in mobile post offices, in mobile security protection and in other such activities whereat the work duties are performed during travel to another nucleated settlement or facility: up to the double amount of the minimum amount of such additional expenses as fixed in a statutory instrument;
- xi) the lump-sum allowances for medical treatment, provided by the employer for the account of the expenses on fringe benefits: up to the value of the treatment;
- xii) the value of the lump-sum allowances provided by the employer for the account of the expenses on fringe benefits upon: child birth, contracting of civil marriage or death of a member of the family: not exceeding, in aggregate, BGN 2,400;
- xiii) the expenses on fringe benefits incurred by the employer of up to BGN 60 monthly for each insured person on payments/premiums for supplementary voluntary social insurance, voluntary health insurance and/or life assurance, as reported by the enterprises and the representative offices, regardless of whether they carry out economic activity;
- xiv) the expenses incurred by the employer on any commercial insurances defined as compulsory by a statutory instrument;
- xv) the cash prizes and merchandise awards received in pursuance of and according to the procedure established by a statutory instrument etc.
- xvi) the monetary ration allowance paid according to the law.

### **13.12. Taxes on Dividends**

Dividends regardless of their form and liquidation shares distributed by local legal entities to individuals are subject to a 5% withholding tax.

Exempt from this tax are foreign legal persons who are residents in an EU member state or a state from the European Economic Area. The taxable amount for assessment of the tax withheld at source on any income accruing from dividends is the gross amount of the dividends distributed.

Any payers of income withholding the tax at source is obligated to remit the taxes due not later than the end of the month next succeeding the quarter during which a decision was made on distribution of dividends or of shares in a liquidation surplus

### **13.13. Tax on Income**

National tax of 10% applies on the income of resident and non-resident individuals. National tax of 15% applies on the income from economic activity in a sole-entrepreneur capacity.

The tax on income is applied on national level and no regional tax apply.

### **13.14. Tax Treaties**

Please see Section XII, point 12.11.

### **13.15. Territoriality Rules**

Local natural persons are taxable for their income originating from sources in the country and abroad.

Foreign natural persons are taxable for their income originating from sources in Bulgaria. Foreign citizens residing on the territory of Bulgaria with the purpose of receiving education or medical treatment, as well as foreign experts, are liable for tax on income originating from sources in Bulgaria, regardless of the duration of their stay. Whenever a natural person who is a foreign citizen residing in Bulgaria with the sole purpose of receiving education or medical treatment, receives permanent residence status or extends their stay after the education or medical treatment is completed, they are considered local natural persons from the day the permanent residence status has been obtained or the day of extending their temporary stay.

Individuals are subject to tax on their worldwide income.

### **13.16. Wealth Tax**

Currently, no wealth tax is applicable under Bulgarian law.

### **13.17. Withholding Tax**

Salary is subject to withholding taxes at the source. Taxes are paid by the corresponding employer before the transfer of the salary to the employee takes place.

## **XIV. Tax on Other Legal Bodies**

The non-profit legal entities, legal entities regulated under special laws (for example law firms), as well as non-personalized legal entities are subject to taxation with corporate tax for their profit from commercial transactions, as well as from the leasing of movable assets and immovable property.

When relevant the rules of corporate taxation apply to all such other legal bodies accordingly – please see Section XII above.

There are specifics which apply when it comes to VAT with respect to non-personalized legal entities where the contributions of the partners for their common undertaking are not considered as VAT-taxable deliveries.

Also depending on the type of activity (for example in the field of sports or healthcare) certain deliveries performed by non-profit legal entities may be considered VAT exempt.

### **14.1. Allowances**

Please see Section XII, point 12.1.

### **14.2. Calculation of Taxes**

Please see Section XII, point 12.2.

### **14.3. Capital Gains**

Please see Section XII, point 12.3.

### **14.4. Filing and Payment Requirements**

Please see Section XII, point 12.4.

#### **14.5. Miscellaneous Taxes**

Please see Section XII, point 12.5.

#### **14.6. Registration Duties**

Please see Section XII, point 12.6.

#### **14.7. Sales Tax or other Turnover Tax**

Please see Section XII, point 12.7.

#### **14.8. Social Security and Welfare System Contributions**

Please see Section XII, point 12.8.

#### **14.9. Special Tax Themes**

Please see Section XII, point 12.9.

#### **14.10. Tax on Profits**

Please see Section XII, point 12.10.

#### **14.11. Tax Treaties**

Please see Section XII, point 12.11.

#### **14.12. Territoriality Rules**

Please see Section XII, point 12.12.

#### **14.13. Treatment of Tax Losses**

Please see Section XII, point 12.13.

#### **14.14. Wealth Tax**

Please see Section XII, point 12.14.

#### **14.15. Withholding Taxes**

Please see Section XII, point 12.15.

## **XV. General Tax Considerations**

Bulgaria applies a worldwide income tax system and residents are taxable on their worldwide income. Bulgarian companies are subject to a flat tax rate of 10% and the taxable profit is the annual financial result adjusted for tax purposes. Bulgaria also levies a flat personal income tax rate of 10%.

Offered is a low cost business environment including low rental prices and relatively low salaries (average net salary of EUR 327/month), while the country has a very well developed Internet infrastructure which offers excellent opportunities to outsource activities to a Bulgarian subsidiary. The EU Parent-Subsidiary Directive enables the parent company to repatriate the low-taxed profits in a tax-efficient way.

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A number of EU countries offer an attractive IP holding regime, however they levy relatively high corporate income taxes on pure trading income. EU countries such as Malta and Cyprus levy low corporate income taxes on trading income but have an island image. Bulgaria is a good alternative within the EU offering a flat corporate income tax rate of only 10% applicable to all types of income. A Bulgarian company can function as a subsidiary of a non-EU parent company. As such, one achieves a minimum tax leakage in Europe (10% corporate tax and 5% withholding tax) and a tax-efficient repatriation of the profits.

Main taxes that potentially apply to a business vehicle subject to tax in Bulgaria

Tax resident business vehicles pay tax on their worldwide income, including:

- Corporate tax on profits at 10%.
- Tax on certain expenses (such as business related expenses or social expenses in kind provided to employees) at 10%.
- Value added tax (VAT) at a standard rate of 20%. The applicable rate of tax is 9% for providing accommodation at hotels, similar establishments, holiday accommodation (including at camping sites or caravan sites).



10

<sup>10</sup> Invest Bulgaria Agency – [www.investbg.government.bg](http://www.investbg.government.bg)

## **XVI. Immigration Requirements**

### **16.1. Immigration Control**

There are no immigration quotas applicable under Bulgarian legislation.

No mandatory vaccinations are required.

A medical certificate is required with a minimum coverage of EUR 30,700 (BGN 60,000). In practice usually the following risks are being covered by the private insurance – medical expenses, resulting from an accident and/or an acute disease; repatriation, resulting from an accident and/or an acute disease; emergency dental care; death, resulting from an accident.

Generally, all foreigners should dispose of at least a regular travel document (i.e. passport or another equivalent document) and visa (serving as entry permit) in order to enter the territory of Bulgaria. This requirement, however, does not apply to: citizens of countries being parties to the international treaties on visa exemption regimes concluded by Bulgaria (e.g. USA, Mexico, Monaco, etc.); citizens of the EU, Iceland, Liechtenstein and Norway; and holders of Schengen visas – for all these citizens a valid identification document is sufficient to entitle them to enter and leave the territory of Bulgaria and stay for a period up to three months in any six-month period from the date of the first entry.

The visa itself serves as entry permit and entitles its holder to lawfully reside in the country for a certain period of time depending on the type of visa issued.

No exit permits are required. No re-entry permit is required either within the validity period of the visa.

### **16.2. Immigration Requirements / Formalities**

16.2.1. Foreigners willing to stay in Bulgaria on a continued or permanent basis (i.e. more than six months) before being eligible to apply for residence permit should first obtain a visa type “D”. In this respect, third country nationals, who are not citizens of EU Member States or of a state - party to the EEA (EU + Iceland, Liechtenstein and Norway), or of the Confederation of Switzerland, are subjected to far more restrictive regime in terms of getting a residence permit in comparison to those who are (e.g. prior obtaining of visa “D”, adducing criminal record certificates, etc.).

16.2.2. Three types of residence permits are available to third country nationals:

- i) Continued with an authorized term for residence of up to 1 year and option for renewals;
- ii) Long-term with an authorized term for residence of up to 5 years and option for renewals and
- iii) Permanent (for an indefinite term of residence).

16.2.3. Citizens of the EU, EAA or Switzerland may be granted with two types of residence permit being:

- i) Continued with an authorized term for residence of up to 5 years and option for renewals and
- ii) Permanent for an indefinite term of residence.

16.2.4. All these residences could be issued on the specific legal grounds explicitly provided for in the specialized legislation.

16.2.5. Even if the investor plans to reside permanently on the territory of Bulgaria, the investor is allowed to enter the country on the grounds of a valid visa. The procedure for application and obtaining of a residence permit can be initiated after entering the country.

16.2.6. The information to be supplied to the competent immigration authorities within the procedure for obtaining a residence permit depends on the nationality of the respective applicant. For instance, applicants who are citizens of EU Member States are required to comply with much less formalities in order to obtain residence. Generally, they are supposed to provide the immigration authorities with the following documents/information:

- i) Standard application form;
- ii) Copy of a valid passport or another equivalent document;
- iii) Evidence of available accommodation (e.g. lease agreement, title deed).

16.2.7. The process of issuance of a residence permit to third country nationals is much stricter. Generally, such individuals are required to provide the immigration authorities with:

- i) Regular travel document (i.e. passport or another equivalent document);
- ii) Valid visa "D";
- iii) Evidence of available accommodation (e.g. lease agreement, title deed) or document evidencing the applicant has sufficient funds to sustain existence (e.g. excerpt from bank account);
- iv) Criminal record certificate;
- v) Medical certificate;
- vi) evidence for the legal ground which makes the applicant eligible to apply for issuance of residence permit (e.g. labor permit, certificate demonstrating executed investment, certificate demonstrating the applicant has been admitted to full-time university course, etc.) as far as the residence permit could be obtained in strictly limited hypothesis.

Upon issuance of the residence permit the visa "D" is automatically annulled.

16.2.8. In summary, the immigration procedure concerning third country nationals is divided into the following three main stages: a) legal ground (respective document) which makes the applicant eligible to apply for issuance of residence permit; b) obtaining of visa "D"; c) applying for the issuance of the residence permit and receipt of the latter.

16.2.9. The residence certificate issued to a citizens of EU Member States, or of a state – party to the EEA, or of the Confederation of Switzerland are issued immediately with the filing the application.

The residence certificate issued to third country nationals, typically, takes between 1-3 months depending on the type of residence for which the foreigner candidates.

### **16.3. Visas**

16.3.1. All foreigners are expected to have at least a valid passport and visa in order to entry and reside in Bulgaria subject to the exceptions as referred to in 16.1. above.

The validity of the visa depends on the type of visa issued:

i) Airport transit visa “A” for single-entry, double-entry or, as an exception is issued with a validity term of three months from the date of its issuance. Generally, the holder of such visa is entitled to cross or stay in the international transit zone of the airport in the case of a transit landing or of changing flights for the purposes of traveling to another state.

A foreigner travelling on an air transit visa is, in principle, considered as unadmitted to the territory of the Bulgaria and not entitled to leave the transit rooms.

ii) Transit visa “C” is issued for the purposes of transit through the territory of Bulgaria and allows the foreigner for one, two, or, as an exception – three transit passages each for a term of two days and could be issued with a validity term of up to twelve months.

iii) Visa “C” for the purposes of planned stay is typically issued for touristic or other purposes (e.g. business trip) allowing the foreigner to enter in Bulgaria once, twice or multiple times for a maximum term of three months within each six-month period as of the date of the first entry. The multiple short-stay visa could be with a validity term of up to twelve months or, as an exception – up to five years;

iv) Visa “D” for long-term residence is issued to foreigners willing to reside in Bulgarian on a long-term or permanent basis. Its validity is limited to a term of up to six months and entitles for residence of up to 180 days. Furthermore, such visa with a validity term of up to one year and entitling for residence of up to 360 days could be issued to foreigners conducting scientific research or students under 1 year education programs, scholars or trainees, foreigners on international secondment, etc. Such visa could be obtained in strictly limited hypothesis.

16.3.2. Investors apply for a visa before the respective Bulgarian diplomatic office. These offices usually operate via an appointment system and appointments need to be booked at least 2 weeks in advance.

16.3.3. The documentation and information required to be provided varies depending on the type of visa for which the candidate applies.

Generally, the documentation / information required could be summarized to the following:

- i) Formal application;
- ii) Valid passport (expiry date need to run out at least three months after the intended date of departure; contains at least two empty pages; issued within the previous 10 years);
- iii) Photocopied pages of the passport which includes personal data and visas;
- iv) Passport size photo;
- v) Biometric data collection – ten fingerprints;
- vi) Document proving the purposes of the travel (e.g. tourist visit, business invitation, etc.);
- vii) Evidence of available accommodation (e.g. lease agreement, title deed, hotel reservation) or document evidencing the applicant has sufficient funds to sustain existence except when applying for visa “A” and visa “C”;
- viii) Medical certificate (except when applying for visa “A”).

Usually, the response (decision) on application for issuance of visa “A” or visa “C” is delivered within 15 calendar days. The response (decision) on application for issuance of visa of visa “D” takes a bit longer - 35 working days.

16.3.4. The costs related to the issuance of visas are as follows:

- i) Visa “A” and visa “C” (for a short stay for the purposes of transit or a planned stay) – EUR 60 and EUR 120 (in case the application is filed within three business days before the planned traveling date);
- ii) Visa “D” – EUR 100 for visa with a validity term of up to six months and entitlement to reside of up to 180 days and EUR 200 for visa with a validity term of up to one year and entitlement to reside of up to 360 days.

## **XVII. Expatriate Employees**

### **17.1. Cost of Living**

According to data published by the National Statistical Institute reflecting the status as of 2016, the average monthly income is BGN 960.62 per household and BGN 408.10 per person, with the main source of income being wages or salaries. Other sources of income include, inter alia, entrepreneurship, property rental, pensions and the sale of property.

Average monthly spending is BGN 844.22 per household and BGN 358.64 per person.

Some food products, beverages and cigarettes in Bulgaria are still relatively cheaper than those in other EU/EEA Member States, which is an added advantage and makes the cost of living more affordable.

The average prices of some non-food consumer goods are indicated below: gasoline BGN A95H – 1.98 per liter; diesel – BGN 1.94 per liter; propane butane – BGN 0.85; electricity – BGN 0.182 per kWh. The cost of footwear and items of clothing vary within a broad range, depending on the manufacturer, quality and the season (winter sales are fairly typical).

The most-consumed food products in Bulgaria cost less than in other European countries. For example, the cost of bread (available in many different types and weights per loaf) is approximately BGN 7.43 per kg, white cheese - BGN 7.00 and 11.00 per kg, fresh milk between BGN 1.50 and 2.00 per liter, and yoghurt costs approximately BGN 0.75 per ½ litre. Food stores are open daily from 07.30 until 22.00 hours, and 24-hour shops also operate. Most other shops are open daily between 10.00 and 20.00 hours.

### **17.2. Drivers' Licenses**

17.2.1. Generally, a driving license issued in another country is valid on the territory of Bulgaria in the following cases:

- i) The country where the driving license has been issued is a party to the Road Traffic Convention and meets the requirements of Appendix 6 thereto;
- ii) The country where the driving license has been issued is party to the North Atlantic Treaty regarding the Status of their Forces in conformity with the terms set out in Article 4, letter “a”;
- iii) The license is accompanied by legalized translation in Bulgarian;

iv) The license was issued as international under the Road Traffic Convention and meets the requirements under Appendix 7 thereto;

v) The license is issued by EU Member State, or of a state - party to the EEA, or of the Confederation of Switzerland.

17.2.2. Furthermore, foreigners residing on a continued or long-term basis on the territory of Bulgaria are allowed to drive motor vehicles on the territory of the country with a license not issued by a EU Member State, or of a state - party to the EEA, or of the Confederation of Switzerland, for a period up to one year from their entry into the country.

17.2.3. A foreigner may apply for recognition and replacement of foreign driving license in the following cases:

i) The country where the driving license has been issued is a party to the Road Traffic Convention and meets the requirements of Appendix 6 thereto;

ii) The country where the driving license has been issued is a party to the Road Traffic Convention and this country has also signed a Treaty with Bulgaria for mutual recognition and reissuance of driving licenses;

iii) The country where the driving license has been issued is a EU Member State, or of a state - party to the EEA, or of the Confederation of Switzerland.

17.2.4. Generally, for recognition and replacement of the foreign driving license an investor should submit the following documents/information:

i) Standard application;

ii) The original hard copy of the foreign driving license which is to be ex officio dispatched back to the competent authorities of the issuing state;

iii) Medical certificate for physical fitness;

iv) Statement as regards the applicant's habitual residence is not in other EU Member State, or of a state - party to the EEA, or of the Confederation of Switzerland, as well as the applicant does not possess valid driving license issued by another EU Member State.

v) Certificate for mental health (to be presented for citizens outside the EU, EEA and Confederation of Switzerland);

vi) Certificate issued by the competent state authority proving as a minimum requirement graduation of secondary school (to be presented for citizens outside the EU, EEA and Confederation of Switzerland).

17.2.4. If the foreign driving license does not comply with the requirements of the laws both practical and written examinations are required in order for a new driving license to be obtained which complies with the mandatory requirements of Bulgarian laws.

17.2.5. The fees involved

i) For individuals under the age of 58: standard procedure (30 calendar days) - BGN 25; fast track procedure (10 calendar days) – BGN 50;

ii) For individuals between the age of 58-70: standard procedure (30 calendar days) – BGN 11; fast track procedure (10 calendar days) – BGN 22;

iii) For individuals above the age of 70 – free of charge.

### **17.3. Education**

Both types private and state/municipalities owned schools & universities are available to foreign investors and their families. There are no unified tariffs and/or maximum/minimum thresholds of the fees involved which vary depending on the education level, specific school and education program. The requirements for enrollment also vary depending on the type of the school (incl. educational level) or university and education program.

### **17.4. Housing**

Different possibilities for renting and buying living premises are available to foreign investors.

Generally, all citizens of the EU member states, Norway, Iceland and Liechtenstein can acquire (either as individuals or through legal entities) ownership of real estate (e.g. house, apartment, residential building) and regulated land. Since January 1<sup>st</sup> 2014 such citizens are also permitted to acquire agricultural land under the terms and conditions regulated by the law, thus having in practice the same rights as the Bulgarian citizens.

Non-EU citizens (and also non-EEA citizens) are allowed to acquire and own as individuals only buildings. Such foreigners can acquire ownership over regulated land plots only under the terms of an international agreement ratified under the terms of Article 22 (2) of the Constitution of the Republic of Bulgaria which has been promulgated and entered into force. In practice, ownership over such real estate property can be acquired indirectly through a legal entity established in Bulgaria. Ownership over agricultural land or forests cannot be acquired by non-EU citizens or non-EEA citizens.

In event where the investor decides to reside on the territory of Bulgaria on a long-term basis the housing conditions need to be ensured in advance. Usually in practice this is ensured by virtue of a concluded lease agreement. Properties may be rented on a fully, partially or unfurnished basis. It is also possible to rent a room in a property where the tenant will live alongside the property owners. Property rentals are most expensive in Sofia and other big cities such as Varna and Plovdiv, where rental costs may be up to 10 times higher than in smaller towns. In most cases, the rent is payable in cash on a certain day of the month. Usually, utility bills (water, electricity and heating) are not included in the rent and are payable by the tenant on a regular basis.

The costs of renting accommodation or purchasing a property vary within a large range depending on the area, the location within a certain area or the condition of the accommodation/property. The average property purchase prices in larger towns also vary between BGN 1,200 per square meter and BGN 2,500. In smaller towns prices vary between BGN 618 and 821 per square meter (data last updated 2015).

### **17.5. Importing Personal Possessions**

Local and foreign individuals are able to import unlimited quantity of BGN and foreign currency in cash declaring before the customs authorities the amount of the imported funds, their owner, the type of the currency, the origin of the funds and their purpose if the total sum is above EURO 10,000. Domestic and foreign natural persons may export and import precious metals and gemstones and items made with and from them after declaring such valuables to customs in a manner established by the Minister of Finance. The export and

import of precious metals and gemstones and items made with and from them through mail is prohibited, with the exception of postal packages of declared value.

The EU customs regulations apply.

Import duties may be payable depending on the type of transferred goods and possessions.

## **17.6. Medical Care**

17.6.1. The healthcare system in Bulgaria is organized and managed by the Ministry of Health. The contributions to the healthcare system are managed by National Health Insurance Fund (NHIF). Healthcare contributions are paid by all persons working under the terms of employment contracts and self-employed persons and are deducted from the monthly remuneration paid by employers (for persons working under the terms of employment contracts), along with other payable social insurance contributions. Self-employed persons pay their healthcare contributions themselves.

Insured persons are entitled to use the services of medical professionals and healthcare facilities who/which have concluded a contract with the National Health Insurance Fund.

Outpatient care (excluding emergency care) services are provided by natural or legal persons on the basis of concluded contracts with the National Health Insurance Fund. All insured persons choose a general practitioner (GP) with whom they may consult as necessary. If the GP selected is not a specialist who has the necessary competence to treat a certain condition, the patient obtains a medical referral to be examined by a specialist licensed by the National Health Insurance Fund. When visiting the GP, or a specialist on the basis of a referral by a GP, the patient must pay a fee of BGN 2.90 (data last updated 2015). Per day of hospitalization, a user charge of BGN 5.40 (data last updated 2015) is levied, but for no more than 10 days in any one year. Children up to 18 years of age, pregnant women, non-working family members, military staff and certain other categories of persons are exempt for the payment of applicable fees.

Uninsured persons pay the service fee and the full amount of the medical care received.

There are many specialist private surgeries and clinics in Bulgaria. In the case of consultations and/or treatment in such surgeries/clinics, patients pay for the respective examination and/or treatment, regardless of whether they have medical insurance or not. More information about health insurance and the conditions for using healthcare services in Bulgaria is available from the websites of the Ministry of Health and the National Health Insurance Fund.

When in need of emergency medical care call the national emergency number 112.

17.6.2. Obligatory health insured by the National Health Insurance Fund beside the Bulgarian citizens are:

- i) all foreign citizens or stateless persons who have been permitted long-term residence in the Republic of Bulgaria, save as otherwise provided by an international treaty whereto the Republic of Bulgaria is a party;
- ii) all persons who have been recognized refugee status or humanitarian status or who has been afforded a right of asylum (in Bulgaria);
- iii) foreign students and PhD fellows in Bulgarian universities and scientific institutes.

iv) persons other than such referred to in Items 1 to 5, in respect of whom the legislation of the Republic of Bulgaria is applied according to the rules for coordination of social security schemes.

The persons, who, according to the rules for coordination of social security schemes, are subject to health insurance in another Member State, shall not be covered by compulsory insurance provided by the National Health Insurance Fund.

17.6.3. The obligatory health insured person is generally entitled:

- i) to receive medical care within the scope of the basic package of health-care activities guaranteed by the budget of the National Health Insurance;
- ii) to choose a medical care provider who or which has concluded a contract with the regional health insurance fund;
- iii) to receive emergency care wherever he or she may be;
- iv) to obtain information from the Regional Health Insurance Fund about the contracts concluded by the said fund with the medical care providers.

### **17.7. Moving Costs**

Moving costs depend very much on the particular destination, transport means etc.

### **17.8. Tax Liability**

See Section XIII

### **17.9. Work Contracts**

Whether an investor would need to enter into a work contract in the country depends on the type of work performed – whether the activity performed qualifies as labor activity or management or other type of independent activity.

For more details on employment, please refer to Section XI.

### **17.10. Work Permits**

17.10.1. Third country nationals (individuals who are not citizens of EU Member States or of a state - party to the EEA, or of the Confederation of Switzerland) are required to have work permit in order to exercise labor activities in Bulgaria under employment contract or secondment. Third country nationals, who have obtained a permit to work in Bulgaria, are able to work only for the precise employer and for the term determined in the work permit. The work permit itself is the legal ground for issuance of visa "D".

17.10.2. Work permit for hiring a foreigner under legal terms of employment can be issued according to the condition, the development and the public interests on the market of labor if:

- i) the local employer has presented evidence that he has actively sought, for a period not less than 15 days, within the frames of the market of labor, the necessary specialist, including in Directorate "Employment bureau" of the Employment Agency, as well as through announcements in the national and local mass media;
- ii) the foreigner has a vocational secondary education, higher degree of education and/or specific professional qualification and experience corresponding to the objective requirements for the respective occupation/job and the activity carried out;

iii) there are no Bulgarians or foreigners permanently staying in the Republic of Bulgaria or such with equal rights having the required profession, specialty and/or qualification, including such having no ability of timely training of personnel needed by the employer, which fact has been established upon a study of the market of labor, complied with the objective requirements for occupying the position and the specifics of the activity.

Further the number of the foreigners employed by a Bulgarian employer may not exceed 10 % of the number of all employees which are Bulgarian citizens.

17.10.3. Outlined below is a list of the main categories of third country nationals who may work in the country without having work permit:

- i) managers of companies or branches of foreign legal entities;
- ii) members of the Managing Board or Board of Directors of local companies, who are not employed on a labor contract;
- iii) trade representatives of foreign companies registered at the Bulgarian Chamber of Commerce and Industry;
- iv) Individuals with long-term/permanent residence in Bulgaria.

17.10.4. Besides, third country nationals could be engaged in performing short-term assignments without having work permit under the following conditions:

- i) they are sent on a business trip to Bulgaria by their foreign employer;
- ii) the assignment in Bulgaria is no longer than 3 months within a period of 1 year;
- iii) the assignment encompasses any of the following:
  - the installation or the warranty repair of imported machinery and equipment;
  - training in the operating of equipment or the delivery of ordered equipment, machines or other items;
  - training as part of an export contract for the supply of goods under a license agreement;
  - control and coordination of the performance of a tourist services contract between a foreign tour-operator and a Bulgarian tour-operator or hotel-keeper.

17.10.5. The procedure for a work permit to be issued is instigated through filing of a request-declaration with the "Employment Bureau" Directorate at the Employment Agency by the employer.

The following documents for issuance of work permit need to be presented by the employer in Directorate "Employment bureau":

- i) request-declaration in duplicate in a form approved by the Minister of Labor and Social Policy;
- ii) substantiation of the request;
- iii) three photos of the foreigner;

iv) copy of the court decision and/or the registration in the Bulgarian Chamber of Commerce and Industry or other document legitimizing the depositor of the request, as well as a certificate of current status;

v) documents for degree of education, specialty, legal capacity or acquired professional qualification, skills and experience of the foreigner legalized by the respective order;

vi) reference-declaration for the foreigners working in the company stating names according to their passports, date of birth and citizenship for:

- those hired under legal terms of employment - stating number, date of issuance, term of the work permit, of the visa or of the permit for stay;

- those authorized to represent the company, those working under a contract for management and control - stating number and term of validity of the personal card of the foreigner;

vii) reference-declaration for the average number of the Bulgarian citizens hired under legal terms of employment, foreigners staying permanently in the Republic of Bulgaria and foreigners with rights equal to theirs during the preceding 12 months, signed by the employer and by the chief accountant;

viii) employment contract concluded according to the requirements of the Bulgarian legislation signed by the parties and enacted by the issuance of the work permit which shall also determine the obligations of the parties regarding the expenses for accommodation, medical services, insurance, transport from and to the country of permanent stay of the foreigner;

ix) other documents related to the specifics of the position and the practising of the profession and the activity required by normative acts;

x) copy of the passport of the foreigner.

17.10.6. Related fees: for issuance and extension of a work permit the employer has to pay a fee of 600 BGN.

For seasonal work up to 6 months, for a period of one year, and for a work as a lecturer in a high or higher school the fee is 300 BGN.

17.10.7. The work permit is usually issued within one month as of filing of the application with the Employment Agency.

17.10.8. The work permits are issued for the period for which an employment contract is offered to the foreigner, however, for no longer than 12 months with the possibility to prolong under certain circumstances with another 12 months, whereby the total duration of such permits may not exceed, subject to some exceptions, 3 years.



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**3. People's Democratic Republic of Algeria**

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**4. Andorra**

**Ministry of Foreign Affairs in Andorra la Vella, Andorra (accredited for Bulgaria)**

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**5. Republic of Angola**

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**11. People's Republic of Bangladesh**

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**12. Republic of Belarus**

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**17. Burkina Faso**

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**45. Guinea**

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**46. Republic of Guinea Bissau**

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**50. Islamic Republic of Iran in Sofia**

**Address:** 55, Simeonovsko Shosse blvd. Sofia, Bulgaria

**Tel.:** +359 2 987 85 46; +359 2 987 61 73; +359 2 981 43 48; +359 2 980 54 51

**Fax:** +359 2 981 41 02; +359 2 987 70 41

**E-mail:** iranembassy@abv.bg

**51. Republic of Iraq**

**Address:** , 2, Anton Chekhov Street 1113 Sofia, Bulgaria

**Tel.:** +359 2 973 33 48, +359 2 973 38 85

**Fax:** +359 2 971 11 97

**E-mail:** sofemb@iraqmofamail.net

**52. Ireland**

**Address:** 26-30, Bacho Kiro Street, 1000 Sofia, Bulgaria

**Tel.:** +359 2 985 34 25

**Fax:** +359 2 983 33 02

**E-mail:** sofiaembassy@dfa.ie

**53. Republic of Iceland**

**The Embassy of Iceland in Copenhagen is accredited for Bulgaria**

**Address:** 89, Strandgade, DK-1401 København K, Denmark

**Tel.:** +453318 1050

**Fax:** +4533 18 10 59

**E-mail:** icemb.coph@utn.stjr.is

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**54. The State of Israel**

**Address:** 18, Shipchenski prohod, Galaxy Trade Center, floor 6, 1113 Sofia, Bulgaria

**Tel.:** +359 2 951 50 44;

**Fax:** +359 2 952 1101

**E-mail:** info@sofia.mfa.gov.il

**Website:** www.sofia.mfa.gov.

**55. The Italian Republic**

**Address:** 1000 Sofia, 2 "Shipka" Street

**Tel.:** +359 2 921 73 00

**Fax:** +359 2 980 37 17

**Website:** www.ambsofia.esteri.it

**56. Jamaica**

**Permanent Mission of Jamaica in Geneva is accredited for Bulgaria**

**Address:** 23, Avenue de France, 1202 Geneve, Switzerland

**Tel.:** +41 22 908 07 60, 731 57 80

**Fax:** +41 22 738 44 20

**E-mail:** info@jamaicamission.ch

**57. Japan**

**Address:** 14, Lyulyakova Gradina Street, Sofia, Bulgaria

**Tel.:** +359 2 971 34 37

**Fax:** +359 2 971 10 95

**58. Republic of Kazakhstan**

**Address:** 38, Galicica Street, Sofia, Bulgaria

**Tel.:** +359 2 862 41 52, +359 2 862 41 55

**Fax:** +359 2 862 41 70

**E-mail:** kazembassy@bulpoStreetnet

**59. Republic of Kenya**

**The Embassy in Berlin is accredited for Bulgaria.**

**Address:** Markgrafen Strasse 63, 10969 Berlin

**Tel.:** +49 30 259266 0; +49 30 259266 11

**Fax:** +49 30 259266 50

**E-mail:** Address@embassy-of-kenya.de

**Website:** www.embassy-of-kenya.de

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**60. Republic of Kosovo**

**Address:** 28, Bacho Kiro, Street, 1000 Sofia, Bulgaria

**Tel.:** +359 2 983 39 99

**Fax:** +359 2 983 52 22

**E-mail:** embassy.bulgaria@ks-gov.net

**61. State of Kuwait**

**Address:** 15, Simeonovsko shose Street Residence, 1700 Sofia

**Tel.:** +359 2962 5689; +359 2962 5130; +359 2962 5209

**Fax:** +359 2962 4584

**62. Lao People's Democratic Republic**

**The Embassy of Laos in Vienna is accredited for Bulgaria.**

**Address:** 1030 Wien, Neulinggasse 29 /Top 6

**Tel.:** +43 1 890 2319 11; +43 1 890 2319 13

**Fax:** +43 1 890 2319 15; +43 1 890 2319 18

**E-mail:** laoembassyvienna@hotmail.com

**63. Republic of Latvia**

**The Embassy of the Republic of Latvia in Warsaw is accredited for Bulgaria.**

**Chancery:** ul. Królowej Aldony 19, 03-928 Warszawa

**Tel.:** +22 617 11 05

**Tel.:** +601 293 611 (emergency contact Tel. for citizens of Latvia)

**Fax:** +22 617 11 06

**E-mail:** embassy.poland@mfa.gov.lv

**64. Republic of Lebanon**

**Address:** Frederic Juliot Curie, Bl. 155, apt. 13, 1113 Sofia

**Tel.:** +359 2 971 27 34; +359 2 971 27 23; +359 2 971 13 14;

**Fax:** +359 2 971 34 97

**E-mail:** amblibansofia@gmail.com

**65. Kingdom of Lesotho**

**Lesotho's Embassy in Rome is accredited for Bulgaria**

**Address:** 8, Via Serchio, 00198 Rome, Italy

**Tel.:** +39 06 854 2496; +39 06 854 2419

**Fax:** +39 06 854 2527

**E-mail:** counsellor@lesothoembassyrome.com

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**66. Republic of Liberia****Liberian Embassy in Paris is accredited for Bulgaria.****Address:** 12, place du Général Catroux**Tel.:** +33 1 47635855; +33 1 47632385**Fax:** +33 1 42127614; +33 1 47584610**E-mail:** libem.paris@wanadoo.fr**67. Libya****Address:** Residence № 1, Andrei Saharov Blvd., Sofia**Tel.:** +3592 974 31 56, +3592 974 35 56**Fax:** +3592 974 32 73**68. Principality of Liechtenstein****Address:** 33 Shipka Street, P.O.Box 244, 1000 Sofia**Tel.:** +3592 942 01 00**Fax:** +3592 946 16 22**E-mail:** vertregung@sof.rep.admin.ch**69. Republic of Lithuania****The Embassy of the Republic of Lithuania in Bucuresti is accredited for Bulgaria****Address:** București, B-dul Primăverii, nr.51, et. 1, ap. 2, Sector 1, cod 011973**Tel.:** +40 21 3115997; +40 21 3173373**Fax:** +40 31 3115919**E-mail:** [amb.ro@umr.lt](mailto:amb.ro@umr.lt)**Website:** <http://ro.mfa.lt>**70. The Republic of Macedonia****Address:** 17, Frédéric Joliot-Curie Street, Block 2, Flat 1/5, 1000 Sofia**Tel.:** +359 2 870 15 60, 02 870 50 98**Fax:** +359 2 971 28 32**E-mail:** sofia@mfa.gov.mk**71. Republic of Madagascar****The Embassy of Madagascar in Moscow is accredited for Bulgaria****Address:** 5, Koursovoy Pereolok, 119034 Moscow**Tel:** +70 95 290 02 32**Fax:** +70 95 202 34 53**E-mail:** [info@ambamadagascar.ru](mailto:info@ambamadagascar.ru)**Website:** [www.ambamadagascar.ru](http://www.ambamadagascar.ru)

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**72. Republic of Malawi**

**The Embassy of Malawi in Berlin is accredited for Bulgaria**

**Address:** Westfealische Strasse 86, 10709, Berlin, Germany

**Tel.:** +49 0 308431540

**Fax.** +49 0 3084315430 [consular@malawiembassy.de](mailto:consular@malawiembassy.de)

**Website:** www.malawiembassy.de; www.malawi-berlin.com

**73. Malaysia**

**The Embassy of Malaysia in Bucharest is accredited for Bulgaria**

**Address:** 020 521 Bucharest, 11, rue Drobeta, Sector 2

**Tel:** +4021 211 38 01.211 38 02

**Fax:** +4021 210 02 70

**E-mail:** mwbucrst@itcnet.ro

**74. Malaysia**

**The Embassy of Malaysia in Bucharest is accredited for Bulgaria**

**Address:** 020 521 Bucharest, 11, rue Drobeta, Sector 2

**Tel:** +4021 211 38 01.211 38 02

**Fax:** +4021 210 02 70

**E-mail:** mwbucrst@itcnet.ro

**75. Republic of Mali**

**The Embassy of the Republic of Mali in Moscow is accredited for Bulgaria**

**Address:** 11 Rue Novokuzuetskkaya Moscow, Russia

**Tel.:** +7 95 2310655; +7 95 2302985

**Fax:** +7 95 2302889

**76. Islamic Republic of Mauritania**

**The Embassy of the Islamic Republic of Mauritania in Berlin, Germany is accredited for Bulgaria**

**Address:** 80, KommandantenStreet, D-10117 Berlin, Germany

**Tel.:** +49 030 2065883

**Fax:** +49 030 20674750

**E-mail:** ambarim.berlin@gmx.de

**77. Republic of Mauritius**

**The Embassy of Mauritius in Berlin is accredited for Bulgaria**

**Address:** 84, Kurfürstenstraße, 10787 Berlin, Germany

**Tel.:** +4930 26 39 36 0

**Fax:** +4930 26 55 83 23

**E-mail:** berlin@mauritius-embassy.de

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**78. The United Mexican States**

**The Embassy of the United Mexican States in Hungary is accredited for Bulgaria**

**Address:** Rómer Flóris utca 58, H-1024, Budapest, Hungria

**Tel.:** +361 326 0447, +361 326 0486, +361 326 0676, +361 326 067

**Fax:** +361 326 0485

**E-mail:** embamexhu@t-online.hu

**Website:** www.embamex.sre.gob.mx/hungria/

**79. Republic of Moldova**

**Address:** 1142 Sofia, 152 "Georgi Rakovski" Blvd.

**Tel.:** +359 2 935 60 11

**Fax:** +359 2 980 64 75

**E-mail:** secretary@ambasadamd.org

**80. Mongolia**

**Address:** 52, Frédéric Joliot-Curie Street, Sofia

**Tel.:** +359 2 865 90 12

**Fax:** +359 2 963 07 45

**81. Montenegro**

**Address:** 1, Alexander Jendov street, Aprt. 29, 1113 Sofia, Bulgaria

**Tel.:** (+359) 2 858 1378

**Fax:** (+359) 2 858 1378

**E-mail:** bulgaria@mfa.gov.me

**82. The Kingdom of Morocco**

**Address:** 1, Chervena Stena Street, 1421 Sofia

**Tel.:** +359 2865 1126, +359 2 865 1137

**Fax:** +359 2865 4811

**E-mail:** ambmarsofia@mbox.contact.bg

**83. Republic of Mozambique**

**The Embassy of Mozambique in Moscow, Russia has been accredited for Bulgaria.**

**Address:** 20, Guilyarovskovo Street, 129090 Moscow, Russia

**Tel.:** +7 95 284 4007, +7 95 284 8325

**Fax:** +7 95 200 4235

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**84. Myanmar (Burma)**

**Embassy of Myanmar in Belgrade has been accredited for Bulgaria**

**Address:** 72, Kneza Milosa Street, 11000 Belgrade

**Tel.:** +38 11 3617 165, +38 11 3619 114

**Fax:** +38 11 3614 968

**E-mail:** myanbel@sezampro.rs

**Website:** www.myanmar.com; www.myanmars.net

**85. Republic of Namibia**

**The Embassy of Namibia in Vienna, Austria has been accredited for Bulgaria.**

**Address:** 2, Zuckerkandlgasse, 1190 Vienna, Austria

**Tel.:** + 43 1 402 9371

**Fax:** + 43 1 402 9370

**Website:** www.embnamibia.at

**86. Nepal**

**The Embassy of Nepal in Moscow has been accredited for Bulgaria.**

**Address:** 14/7, Second Neopalymovskyy Lane, Moscow, Bulgaria

**Tel.:** +7 499 2528215

**E-mail:** nepalemb@mtu-net.ru

**Website:** www.nepalembassyus.ru

**87. Kingdom of the Netherlands**

**Address:** 1504 Sofia, 15 Oboriste Street

**Tel.:** +359 2 81 60 300

**Fax:** +359 2 81 60 301

**E-mail:** sof@minbuza.nl

**88. New Zealand**

**The Embassy of New Zealand in Belgium is accredited for Bulgaria**

**Address:** 1, Square De Meeûs 1000 Brussels, Belgium

**Tel.:** +32 2 512 1040

**Fax:** +32 2 513 4856

**E-mail:** nzemb.brussels@skynet.be

**Website:** www.nzembassy.com/belgium

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**89. Republic of Nicaragua****The Embassy of Nicaragua in Rome is accredited for Bulgaria****Address:**, 16 Via Brescia, 00198 Roma, Italy**Tel.:** +39 6 841 46 93, +39 6 841 34 71**Fax:** +39 6 853 04 079**E-mail:** embanicitalia@hotmail.com**90. Republic of Niger****The Embassy of Niger in Berlin is accredited for Bulgaria.****Address:** Neue Jakob Street 4, 10179, Berlin, Germany**Tel.:** +49 30 212300**Fax:** +49 30 21230212**E-mail:** info@nigeriaembassygermany.org**Website:** www.nigeriaembassygermany.org**91. The Federal Republic of Nigeria****The Embassy of Nigeria in Bucharest is accredited for Bulgaria****Address:** 010449 Bucarest, 9, rue Gina Patrichi**Tel.:** +40 21 312 86 85, 312 79 37**Fax:** +40 21 312 06 22**E-mail:** nigerembinro@yahoo.com**Web site:** www.nigerianembassy.ro**92. The Democratic People's Republic of Korea (North Korea)****Address:** 3, Sofiisko pole Street, Darvenitsa Residential Area, 1756 Sofia;**Tel.:** +359 2 975 33 40; +359 2 974 61 00**Fax:** +359 2 974 55 67**E-mail:** saebyolk@yahoo.com**93. The Republic of Korea (South Korea)****Address:** 36, Dragan Tsankov bul., Interpret Building A, Floor 7 , 1057 , Sofia, Bulgaria**Tel.:** +359-2-971-2181**Fax.:** +359-2-971-3388**E-mail:** koreanembassy.bg@gmail.com, korean-embassy@mofa.go.kr**Website:** http://bgr.mofa.go.kr/**94. The Kingdom of Norway****Address:** 26-30 "Bacho Kiro" Street, 1000 Sofia**Tel.:** +359 2 981 11 06**Fax:** +359 2 981 90 10 **E-mail:** emb.sofia@mfa.no**Website:** www.norvegia.bg

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**95. Sultanate of Oman**

**The Embassy of Oman in Vienna is accredited for Bulgaria.**

**Address:** Omani Embassy in Vienna, Austria Waehringer Strasse 2-4/24/25, 1090 Vienna, Austria

**Tel.:** +43 1 310 8643

**Fax:** +43 1 310 7268

**E-mail:** embassy.oman@chello.at

**96. The Islamic Republic of Pakistan**

**Address:** Sofia, 36 "Dragan Tzankov" blvd., Interpred, bl.A, fl.4, Address 102

**Tel:** +359 2 971 96 19

**Fax:** +359 2 971 01 94

**E-mail:** parepsofia@gmail.com

**97. Palestinian National Authority**

**Address:** 1164 Sofia, 22 "James Burchier" Blvd.

**Tel.:** +359 2 963 43 24, 963 31 23

**Fax:** +359 2 963 25 7

**E-mail:** palestine.sofia@mbox.contact.bg

**98. Republic of Panama**

**Embassy of Panama in Athens is accredited for Bulgaria**

**Address:** 1-3 Filellinon & Akti Miaouli, 185 36 Piraeus

**Tel.:** +30 210 4286 441

**Fax:** +30 210 4286 448

**E-mail:** info@panamaconsulate.gr

**99. Independant State of Papua New Guinea**

**The Papua New Guinea Embassy in Brussels is accredited for Bulgaria.**

**Address:** Av. De Tervuren 430, 1150 Brussels, Kingdom of Belgium

**Tel.:** +32 02 7790609

**Fax:** +32 02 7727088

**E-mail:** kundu.brussels@skynet.be

**100. Republic of Paraguay**

**Embassy of Paraguay in Rome is accredited for Bulgaria**

**Address:** Via Firenze, 43 Scala A int. 17 - 00187 Roma

**Tel.:** +64741715

**Fax:** +64745473

**E-mail:** embaparoma@virgilio.it

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**101. Republic of Peru****Embassy of Peru in Athens is accredited for Bulgaria****Address:** 115 28 Athenes, 2, rue Semitelou**Tel.:** +30 210 779 27 61**Fax:** + 30 210 779 29 05**E-mail:** lepruate @ otenet.gr**102. Republic of the Philippines****The Embassy of the Philippines in Budapest is accredited for Bulgaria.****Address:** Gabor Aron Utca 58, 1026 Budapest, Hungary**Tel.:** +36 1 391 4300**Fax:** +36 1 200 6628**E-mail:** pe.bucharest@dfa.gov.ph; phbuda@mail.datanet.hu**103. Republic of Poland****Address:** 46 "Khan Krum" Street, Sofia 1000**Tel.:** +359 2 987 26 10, +359 2 987 26 60, +359 2 987 26 70**Fax:** +359 2 987 29 39**E-mail:** sofia.amb.sekretariat@msz.gov.pl**Website:** www.sofia.msz.gov.pl/bg**104. Republic of Portugal****Address:** Sofia: 7 "Positano" Street, Bl. 3, 5th Floor**Tel.:** +359 2 448 41 10, +359 2 448 41 09, +359 2 448 01 08**Fax:** +359 2 448 41 02**E-mail:** embpor@sofia.dgaccp.pt**105. The State of Qatar****Address:** 1504 Sofia, 4, Vassil Aprilov Street**Tel.:** +359 865 01 94; +359 865 02 39**Fax:** +359 865 02 39**106. Romania****Address:** 1111 Sofia, "Mihay Eminescu" Blvd № 4**Tel.:** +359 2 971 28 58; +359 2 973 30 81**Fax:** +359 2 973 34 12**E-mail:** ambsofro@vip.bg

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**107. Russian Federation**

**Address:** 28 Dragan Tsankov Blvd. 1113 Sofia, Bulgaria

**Tel.:** +359 2963 0914; +359 2963 4458; +359 2963 1314; +359 2963 4021

**Fax:** +359 2 963 4103

**108. Republic of Rwanda**

**The Embassy of the Republic of Rwanda in The Hague is accredited for Bulgaria.**

**Address:** 9B, Johan Van Oldenbarneveltpaan, 2582 NE Den Haag

**Tel:** +31 703 926 571

**Fax:** +31 704 275 326

**E-mail:** ambalahaye@minaffet.gov.rw

**109. Republic of San Marino**

**Embassy of San Marino in Rome is accredited for Bulgaria**

**Address:** San Marino, 1, Via Vita di Vita, 47893 Borgo Maggiore

**110. Democratic Republic of São Tomé and Príncipe**

**The embassy of Sao Tome and Principe in Washington, USA is accredited for Bulgaria.**

**Address:** 1211 Connecticut Avenue, NW, Suite 300, DC 20036, Washington, USA

**Tel.:** +1 202 7752075; +1 202 7752076

**Fax:** +1 202 7752077

**E-mail:** embstpusa@verizon.net

**111. The Kingdom of Saudi Arabia**

**The Embassy of Saudi Arabia in Athens is accredited for Bulgaria.**

**Address:** 2 Palaiologhou & Agias Annis, 152 32 Halandri, Athens, Greece

**Tel.:** +30 210 671 6911; +30 210 671 6912; +30 210 671 6913

**Tel./Fax:** +30 210 674 9833

**E-mail:** gremb@mofa.gov.sa

**112. Republic of Senegal**

**The embassy of Senegal in Paris has been accredited for Bulgaria.**

**Address:** 14 avenue Robert Schuman, 75007 Paris, France

**Tel.:** +33 1 47053945

**Fax:** +33 1 45560430

**E-mail:** repsen@wanadoo.fr

**Website:** www.perso.wanadoo.fr/ambassenparis

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**113. Republic of Serbia****Serbian Embassy in Sofia, Bulgaria**

**Address:** 3, Veliko Tarnovo street 1504 Sofia Bulgaria

**Tel.:** +359 2 946 1633; +359 2 946 1636

**Fax:** +359 2 946 1059

**E-mail:** sofia@emb-serbia.com

**Website:** www.emb-serbia.com

**114. Republic of Seychelles****The embassy of the Republic of Seychelles in Brussels is accredited for Bulgaria**

**Address:** Avenue Louise 250, boite 102, B-1050, Bruxelles, Belgique

**Tel.:** +32 2 627 5788

**Fax:** +32 2 648 5556

**E-mail:** pdebaets@rolex.be

**115. Republic of Sierra Leone****The Embassy of Sierra Leone in Moscow is accredited for Bulgaria**

**Address:** P.O. Box 141, Rublyovskoye Chaussee, Moscow 121615, Russia

**Tel.:** +7 495 4154166

**Fax:** +7 495 4154124; +7 495 4152985

**E-mail:** ibrahimvkondoh@yahoo.com

**116. Republic of Singapore****The Embassy of Singapore in Moscow is accredited for Bulgaria**

**Address:** Pereulok Kamennaya Sloboda 5, Moscow 121099, Russia

**Tel.:** +7 499 241 3702; +7 499 241 3902

**Fax:** +7 499 241 7895

**E-mail:** singemb\_mow@sgmfa.gov.sg

**Website:** www.mfa.gov.sg/moscow/

**117. Slovak Republic**

**Address:** Sofia, 9, Yanko Sakazov Blvd.

**Tel.:** +359 2 942 92 10

**Fax:** +359 2 942 92 35

**E-mail:** emb.sofia@mzv.sk

**Website:** www.mzv.sk/sofia

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**118. The Republic of Slovenia****Embassy of the Republic of Slovenia in Hungary is accredited for Bulgaria****Address:** 1025 Budapest II, 68, Cseppko u.**Tel.:** +36 1 438 56 00**Fax:** +36 1 325 91 87**E-mail:** vbp@gov.si**119. Somalia****The Embassy of Somalia in the Russian Federation is accredited for Bulgaria****Address:** Simferopolsky Bulvar 7a-145, 117556 Moscow**Tel.:** +7 495 317 15 72; +7 495 317 06 22**Fax:** +7 495 317 06 22**E-mail:** somembassy@nabad.org**Website:** www.nabad.org**120. The Republic of South Africa****Address:** 1000 Sofia, 26 "Bacho Kiro" Street**Tel.:** +359 2 939 50 15**Fax:** +359 2 939 50 17**E-mail:** sofia.political@foreign.gov.za;

sofia.admin@foreign.gov.za;

sofia.consular@foreign.gov.za

**121. Republic of Korea****Address:** 36 Dragan Tsankov, INTERPRED, bl. A, 7th floor, 1040 Sofia, Bulgaria**Tel.:** +359 2 971 21 81, +359 2 971 25 36**Fax:** +359 2 971 33 88**122. Sovereign Order of Malta****Address:** 92 Vassil Levski Blvd., floor 2 1504 Sofia, Bulgaria**Tel.:** +359 2 8439861**Fax:** +359 2 8439861**E-mail:** bulgariaembassy@orderofmalta.int**123. The Kingdom of Spain****Address:** 27, Sheinovo Street, 1504 Sofia, P.O.Box 381**Tel.:** +359 2 943 36 20; +359 2 943 30 32; +359 2 943 30 34; +359 2 946 12 09**Fax:** +359 2 946 12 01; +359 2 946 34 68**Website:** www.embespbg.com

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**124. Democratic Socialist Republic of Sri Lanka**

**The Embassy of Sri Lanka in Warsaw is accredited for Bulgaria.**

**Address:** Ulc. Niedzwiedzia 2C, 02-737 Warsaw, Poland

**Tel:** +48 22 853 88 96/7

**Fax:** +48 22 843 53 48

**E-mail:** mission@srilankaembassy.com.pl

**Website:** <http://www.srilankaembassy.com.pl/>

**125. Republic of Sudan**

**Address:** 19, Frederic Joliot-Curie Street, bl. 156/1, 2nd Floor, Apt. 2, 1113 Sofia, Bulgaria

**Tel.:** +359 2 971 2937, +359 2 971 2991

**Fax:** +359 2 971 7038

**E-mail:** scgs@online.bg

**126. Kingdom of Swaziland**

**The embassy of Swaziland in London, UK is accredited for Bulgaria.**

**Address:** 20 Buckingham Gate, Westminster, London, SW1E 6LB United Kingdom

**Tel.:** +44 171 630 6611

**Fax:** +44 171 630 6564

**E-mail:** enquiries@swaziland.org.uk

**127. Swiss Confederation**

**Address:** 33, Shipka Street, 1504 Sofia, Bulgaria

**Tel.:** +359 2 942 01 00

**Fax:** +359 2 946 16 22

**E-mail:** sof.vertretung@eda.admin.ch

**128. Syrian Arab Republic**

**Address:** 13A, Simeonovsko Shose Blvd., 1700 Sofia

**Tel.:** +359 2 962 45 80, 962 57 42,

**Fax:** +359 2 962 43 14

**E-mail:** syrembabg@gmail.com

**129. Taiwan**

**The Taiwanese Representative Address in Athens, Greece is accredited for Bulgaria.**

**Address:** 57, Marathonodromon Ave, 154 52 Paleo Psychico, Athens, Greece

**Tel:** +30 210 677 6750

**Fax:** +30 210 677 6708

**E-mail:** taipeigreece@gmail.com

**Website:** <http://www.roc-taiwan.org/GR>

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**130. Republic of Tajikistan**

**The Embassy of Tajikistan in the Russian Federation is accredited for Bulgaria.**

**Address:** 13 Granatniy Avenue, 103001, Moscow, Russian Federation

**Tel.:** +74952903846; +7495 290 4186; +7495 290 1447

**Fax:** +7 495 291 8998

**E-mail:** [ambassy@mail.ru](mailto:ambassy@mail.ru); [tajembassymoscow@mail.ru](mailto:tajembassymoscow@mail.ru)

**Website:** [www.tajembassy.ru](http://www.tajembassy.ru)

**131. United Republic of Tanzania**

**The Embassy of Tanzania in Berlin is accredited for Bulgaria.**

**Address:** Eschenallee 11, 14050 Berlin (Charlottenburg, Westend), Germany

**Tel.:** +49 30 3030800

**Fax:** +49 30 30308020

**E-mail:** [info@tanzania-gov.de](mailto:info@tanzania-gov.de)

**132. The Kingdom of Thailand**

**The Thai Embassy in Bucharest is accredited for Bulgaria.**

**Address:** 020953 Bucarest, 12, rue Vasile Conta, Sector 2

**Tel.:** +4 021 311 00 31, +4 021 311 00 67, +4 021 311 00 78

**Fax:** +4 021 311 00 44

**E-mail:** [thaibuh@speedmail.ro](mailto:thaibuh@speedmail.ro)

**Website:** [www.thaiembassy.ro](http://www.thaiembassy.ro)

**133. Togolese Republic**

**The Embassy of French Republic in Bulgaria is accredited for Bulgaria**

**Address:** 27-29 Oborishte Street, 1504 Sofia, Bulgaria

**Tel.:** +359 2 9651100

**Fax:** +359 2 9651120

**The Embassy of Togolese Republic in Germany is accredited for Bulgaria.**

**Address:** 43 Grabbeallee 13156 Berlin, Germany

**Tel.:** +49 30 499 089 68

**Fax.:** +49 30 499 089 67

**E-mail:** [bbotschafttogo@web.de](mailto:bbotschafttogo@web.de)

**Website:** [www.botschaft-togo.de](http://www.botschaft-togo.de)

**134. Republic of Tunisia**

**The Embassy of Tunisia in Belgrade is accredited for Bulgaria.**

**Tel.:** +381 11 3690 194; +381 11 3691 961

**Fax:** +381 11 2651848

## LIST OF THE EMBASSIES ESTABLISHED IN OR ACCREDITED FOR BULGARIA

**135. Republic of Turkey**

**Address:** 80, Vasil Levski Blvd. 1000 Sofia, Bulgaria

**Tel.:** +359 2 935 55 00

**Fax:** +359 2 981 93 58

**136. Republic of Turkmenistan**

**The Embassy of the Republic of Turkmenistan in Moscow is accredited for Bulgaria.**

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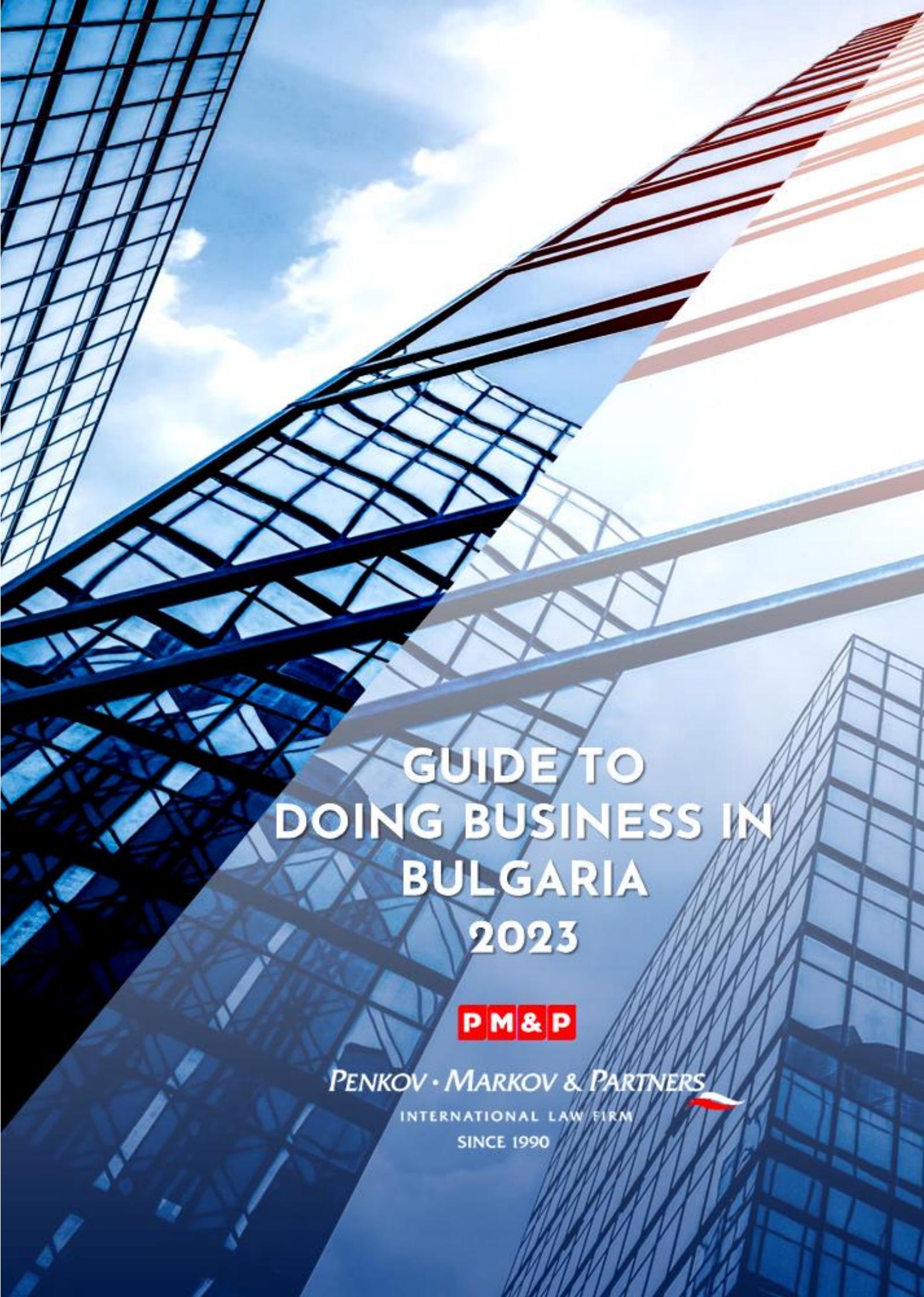
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# GUIDE TO DOING BUSINESS IN BULGARIA 2023

**PM&P**

*PENKOV · MARKOV & PARTNERS*

INTERNATIONAL LAW FIRM  
SINCE 1990



# GUIDE TO DOING BUSINESS IN BULGARIA

2023

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**This guide is based on the Bulgarian legislation as of October 2023.**

## CONTENTS

### **I. The Country at a Glance**

- 1.1. Location, Area and Population
- 1.2. Climate
- 1.3. Political Structure
- 1.4. Official Language and Traditional Religion
- 1.5. Currency and Exchange Rate
- 1.6. Infrastructure and Communication
- 1.7. Public Services

### **II. General Considerations**

- 2.1. Investment policies
- 2.2. Diplomatic Relations
- 2.3. Government
- 2.4. Environmental Considerations
- 2.5. Intellectual Property

### **III. Investment Incentives**

### **IV. Financial Facilities**

- 4.1. Banking/Financial Facilities

### **V. Exchange Controls**

- 5.1. Business Transactions with Nationals, Residents or Non-Residents
- 5.2. Investment Controls
- 5.3. Money Transfer

### **VI. Import/Export Regulations**

- 6.1. Customs Regulations
- 6.2. Exports
- 6.3. Foreign Trade Regulations
- 6.4. Imports
- 6.5. Manufacturing Requirements
- 6.6. Product Labeling

### **VII. Structures For Doing Business**

- 7.1. Governmental Participation
- 7.2. Joint Ventures
- 7.3. Limited Liability Companies
- 7.4. Liability Companies, Unlimited
- 7.5. Partnerships, General or Limited
- 7.6. Partnerships, Undisclosed

- 7.7. Sole Proprietorships
- 7.8. Subsidiaries/Branches/Representative Offices
- 7.9. Trusts and other Fiduciary Entities

**VIII. Requirements For The Establishment Of A Business**

- 8.1. Alien Business Law
- 8.2. Antitrust Laws
- 8.3. Environmental Regulations
- 8.4. Government Approvals
- 8.5. Insurance
- 8.6. Licenses/Permits

**IX. Operation Of The Business**

- 9.1. Advertising
- 9.2. Attorneys
- 9.3. Bookkeeping Requirements
- 9.4. Business Ethics/Codes
- 9.5. Consumer Protection Laws
- 9.6. Construction
- 9.7. Contracts
- 9.8. Price Controls
- 9.9. Product Registration
- 9.10. Reductions or Return on Capital
- 9.11. Sale of Goods
- 9.12. Trade Associations
- 9.13. Anti-Money Laundering Regulation (AML)
- 9.14. Personal Data Protection

**X. Cessation Or Termination Of Business**

- 10.1. Termination
- 10.2. Insolvency/Bankruptcy

**XI. Labor Legislation, Relation, And Supply**

- 11.1. Employer/Employee Relations
- 11.2. Employment Regulations
- 11.3. Hiring and Firing Requirements
- 11.4. Labor Availability
- 11.5. Labor Permits
- 11.6. Safety Standards
- 11.7. Unions

---

## **XII. Tax On Corporations**

- 12.1. Allowances
- 12.2. Calculation of Taxes
- 12.3. Capital Gains
- 12.4. Filing and Payment Requirements
- 12.5. Miscellaneous Taxes Due
- 12.6. Registration Duties
- 12.7. Sales Tax or other Turnover Tax
- 12.8. Social Security and Welfare System Contributions
- 12.9. Special Tax Schemes
- 12.10. Tax on Profits
- 12.11. Tax Treaties
- 12.12. Territoriality Rules
- 12.13. Treatment of Tax Losses
- 12.14. Wealth Tax
- 12.15. Withholding Taxes

## **XIII. Tax On Individuals**

- 13.1. Allowances
- 13.2. Calculation of Taxes
- 13.3. Capital Gains Tax
- 13.4. Filing and Payment Requirements
- 13.5. Inheritance and Gift Tax
- 13.6. Miscellaneous Taxes Due
- 13.7. Real Estate/Habitation Tax
- 13.8. Sales Tax
- 13.9. Social Security and Welfare System Contributions
- 13.10. Stock Option, Profit Sharing and Savings Plans
- 13.11. Taxation of Benefits in Kind
- 13.12. Taxes on Dividends
- 13.13. Tax on Income
- 13.14. Tax Treaties
- 13.15. Territoriality Rules
- 13.16. Wealth Tax
- 13.17. Withholding Tax

## **XIV. Tax On Other Legal Bodies**

- 14.1. Allowances

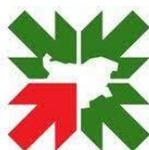
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- 14.2. Calculation of Taxes
  - 14.3. Capital Gains
  - 14.4. Filing and Payment Requirements
  - 14.5. Miscellaneous Taxes
  - 14.6. Registration Duties
  - 14.7. Sales Tax or other Turnover Tax
  - 14.8. Social Security and Welfare System Contributions
  - 14.9. Special Tax Themes
  - 14.10. Tax on Profits
  - 14.11. Tax Treaties
  - 14.12. Territoriality Rules
  - 14.13. Treatment of Tax Losses
  - 14.14. Wealth Tax
  - 14.15. Withholding Taxes
- XV. General Tax Considerations**
- 15.1. Taxes Generally
- XVI. Immigration Requirements**
- 16.1. Immigration Controls
  - 16.2. Immigration Requirements / Formalities
  - 16.3. Visas
- XVII. Expatriate Employees**
- 17.1. Cost of Living and Immigration
  - 17.2. Drivers' Licenses
  - 17.3. Education
  - 17.4. Housing
  - 17.5. Importing Personal Possessions
  - 17.6. Medical Care
  - 17.7. Moving Costs
  - 17.8. Tax Liability
  - 17.9. Work Contracts
  - 17.10. Work Permits



Source: The World Bank, Trading Economics & UNCTAD

1

## DISCOVER A WEALTH OF VALUABLE INFORMATION FOR YOUR BUSINESS BY VISITING THE INVEST BULGARIA AGENCY'S WEBSITE



INVESTBULGARIA  
AGENCY

<sup>1</sup> The World Bank in Bulgaria, The World Bank (Accessed March 2023)

## **I. The Country at A Glance**

### **1.1. Location, Area and Population**

The Republic of Bulgaria is situated in South-Eastern Europe, in the Eastern part of the Balkan Peninsula between 41°14' and 44°14' Northern latitude and 22°21' and 28°36' Eastern longitude. Bulgaria has a territory of 110 993.6 square kilometers which is 22 % of the Balkan Peninsula. Its length is 520 km and its width is 330 km. The overall length of its borders is 2 245 km. Bulgaria borders Romania to the North (the frontier line runs along the Danube River and continues on land to the north-east), Greece and Turkey to the South, Serbia and North Macedonia to the West and the Black Sea to the East.

As of 31<sup>st</sup> December 2022, the population of Bulgaria is 6 447 710.

Capital of the country is the city of Sofia with a population of approximately 1.2 million.

### **1.2. Climate**

The climate in Northern Bulgaria is moderate continental, while the climate in the southern part of the country is intermediate continental tending to Mediterranean. The climate in the regions with an altitude of 1 900 - 2 000 m above sea level is mountainous and along the Black Sea coast it is maritime. The climate of the seaside regions is milder in the winter and cooler in the summer compared to the climate of the interior of the country.

### **1.3. Political Structure**

Bulgaria's current political structure is set through the adoption of a democratic constitution in 1991. Bulgaria is a unitary parliamentary republic with a high degree of political, administrative, and economic centralization. It is a member of the Council of Europe since 1992, of NATO since 2004 and of the European Union since 2007. Bulgaria is a founding state of the Organization for Security and Co-operation in Europe (OSCE) and has been elected member of the UN Security Council three times (1966 – 1967, 1986 – 1987, 2002 – 2003). The country also participates in many other international organizations active in specific fields of the political, economic life etc.

### **1.4. Official Language and Traditional Religion**

The official language in the country is Bulgarian language and the alphabet used is the Cyrillic alphabet.

Minority of the people also speak Turkish.

In the recent years minding the intensive business development and significant foreign investments in the economy most of the people involved in the commercial activity are fluent in English. German, Russian and French are also spoken, however they are not so widely spread.

The traditional religion in Bulgaria is Eastern Orthodox. There is a minority of the population affiliated with other religions, mainly Islam and Catholicism. There are neither cultural nor religious influences nor prohibitions affecting the way business is conducted in the country.

### **1.5. Currency and Exchange Rates**

The official currency in Bulgarian is the Bulgarian lev. A fixed exchange rate applies between the Bulgarian lev and the Euro, whereas 1 EUR equals 1.95583 BGN.

## 1.6. Infrastructure and Communication

The country's main infrastructure in general includes the following:

### Airports:

- Sofia Airport Terminal 1 and 2;
- Airport Varna;
- Airport Burgas;
- Airport Plovdiv.

### Highways:

- Trakia Motorway (Sofia – Burgas);
- Hemus Motorway - partially under construction; in operation from Sofia – to Yablanitsa and from Shumen to Varna;
- Maritsa Motorway from Chirpan (connection with Trakia Motorway) to Svilengrad (at the border with Turkey);
- Struma Motorway from Sofia to the Border with Greece – partially under construction; in operation from Sofia to Simitli and from end of Kresna Gorge to the border with Greece.

According to the governance program of the current government and the preceding governments the completion of the highways is regarded as a priority. While Trakia and Maritsa motorways have been completed, the other are expected to be finalized within the coming years.

**Main Ports:** Varna, Burgas, Lom, Rousse, Somovit, Svishtov, Tutrakan, Silistra.

### Railroad system

The railroad system consists of 9 major railways:

- Kalotina – Svilengrad;
- Sofia – Varna;
- Iliyantsi – Varna;
- Rousse – Podkova;
- Sofia – Kulata;
- Voluyak – Gyueshevo;
- Mezdra – Vidin;
- Plovdiv – Burgas;
- Rousse – Kaspichan.

### Public transport:

Well-established and developed system of city and coach transportation services with prevailing significance of the automobile transport. There is a tendency towards expansion of private presence in the sector, i.e. different private structures overtake distances or in-city lines.

The public transport is under especially dynamic development in the last years in the city of Sofia where on 28.01.1998 the first section of the First diameter of the metro which had 5 stations and length of 6.5 km was commissioned. Since then a total of 47 stations and 52 km are

under operation which has resulted in an increase in the number of passengers carried by metro - up to 91 million on an yearly basis for the period between 2017 and 2019 before Covid; the latest official data for 2021 points 64 million.

### **Media and Electronic Communications:**

The telecommunication market is fully liberalized and has significantly developed in the last decade where at the core of its dynamic change stands the rapid technological development. The transition to high-speed broadband IP-based next generation networks, including to 5G technologies in mobile networks, the scaled-up convergence of fixed and mobile networks, the wide take-up of OTT, bundled services and of Machine-to-Machine communication, and the increased consolidation in the sector are all trends and factors that pose serious challenges to regulation.

According to the Speedtest Global Index for July 2023 which evaluates mobile and fixed broadband speeds from around the world on a monthly basis, Bulgaria ranks 18<sup>th</sup> globally with an average download speed of 85.97 Mbps. The full high speed Internet penetration is still a problem in the rural areas.

The largest fixed operator is Vivacom (former Bulgarian Telecommunication Company), which since more than 10 years is a private company and which was object of the biggest M&A deal not only in Bulgaria but also on the Balkans.

Currently in Bulgaria are functioning 3 mobile telephone operators: A1, Yettel, and Vivacom having developed 5G mobile networks, all of which are fully private.

### **1.7. Public Services**

Most of the public services are state-owned, whereas during the last ten years all the structures have been divided following regional principle, each subdivision having its own managing body but under the supervision of the relevant Ministry. At present great number of the water supply and maintenance of sewerage systems are given under concessions to private companies as the process of consolidation on this market is ongoing.

Electricity transmission system is owned by the state-owned company and the distribution grid is owned by three private companies – Electrohold Bulgaria EAD, EVN Bulgaria EAD and Energo-Pro EAD

During the last ten years the renewable energy production was subsidized by the State through the feed-in-tariff and, subsequently, feed-in premium schemes. As of the end of 2022, 23 % of the total production of electricity comes from renewable sources – water, solar, wind and biomass.

Except for the big HPPs, almost all the renewable production plants are privately owned.

Centralized gas supply is neither so popular nor well established in Bulgaria for the households, however it is well-developed for the industry consumers. Some of the biggest industrial enterprises have their own gas mains and use gas for their production needs. Some of the largest cities have developed gas supply network and develop the service for the households.

The Independent Bulgarian Energy Exchange is operational since 2016, which was a step towards the full liberalization of the electricity market. Although the non-household energy market in the country is fully liberalized, in practice only a relatively small share of the

electricity is purchased under freely negotiated prices whereby most of the companies are supplied by the so called last-instance supplier at fixed price which is around 10% higher.

## INVEST IN BULGARIA

### 5 reasons to invest in BULGARIA

#### 1. Political and business stability

- ✓ EU, NATO & WTO member
- ✓ Currency board
- ✓ Low budget deficit and government debt

#### 2. Competitive cost of doing business

- ✓ 10% Corporate and Personal tax rates
- ✓ Competitive cost of labor
- ✓ Favorable office rents and low cost of utilities

#### 3. Access to markets

- ✓ European Union / EFTA
- ✓ Russia
- ✓ Turkey/Middle East

#### 4. Educated & skilled workforce

- ✓ 80 000 students abroad
- ✓ 25% of population hold university degree
- ✓ 46% of population speak at least one foreign language

#### 5. Government incentives

- ✓ Social security benefits
- ✓ Tax benefits
- ✓ Vocational education benefits

## II. General Considerations

### 2.1. Investment policies

#### 2.1.1. Investment regime and promotion in general

There are no restrictions on foreign investment or foreign shareholders in the Republic of Bulgaria. Foreign investors are considered equal to local investors in all aspects, including shareholder participation. The InvestBulgaria Agency (IBA) at the Ministry of Innovation and Growth is created in order to support potential local and foreign investors in Bulgaria by providing information, contacts and project management support to investors. For more detailed information on the investment promotion mechanisms and requirements, please see point 3 below.

#### 2.1.2. Sector Specific incentives and restrictions on foreign investments

Additional requirements and specific restrictions apply to companies registered in jurisdictions with preferential tax regimes and any parties related to such companies under the regulations of Economic and Financial Relations with Companies Registered in Jurisdictions with Preferential Tax Treatment, their Controlled Entities and their Beneficial Owners Act. Restrictions on business activity carried out by foreign nationals can be imposed in limited sectors (for example: related to national security, tobacco processing and medical research where licensing regimes apply).

There are also restrictions for foreign nationals to acquire ownership over agricultural land: Eligible to acquire right of ownership over agricultural lands shall be natural or legal persons who have been resident or established in the Republic of Bulgaria for more than 5 years.

On 1 January 2014, EU citizens obtained equal rights to Bulgarian citizens in relation to real estate in Bulgaria.

As an EU-member state, Bulgaria imposes restrictions established at EU level (for example: the applicable visa regime, customs regime, etc.) that are applied under the common European policy in the respective field.

#### 2.1.3. Inflation rate – Inflation rate for 2022 – 15.1 %<sup>2</sup>

#### 2.1.4. De facto restrictions on investment

The state-owned railway operator BDZ faces financial and restructuring difficulties.

Bulgaria continues to face major challenges in meeting quality water supply and sanitation requirements. Therefore, a big portion of the European funds for infrastructure are allocated for such purpose.

Public procurement is affected by a frequently changing legal framework and insufficient administrative capacity however the implementation of an electronic platform CAIS EOP in the end of 2021 represents a big step forward in making the process fully digital

#### 2.1.5. Sizes of different markets

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<sup>2</sup> Source: National Statistical Institute of the republic of Bulgaria - <http://www.nsi.bg/en>

The main segments in the structure of Bulgaria's GDP are the sectors of agriculture (appr. 5 %), industries – (appr. 25 %) and services (appr. 70 %).

#### 2.1.6. Some accents on specific types of businesses conducted in Bulgaria

##### 2.1.6.1. Business Process Outsourcing

During the last couple of years Bulgaria is a very popular destination for the outsourcing of the IT servicing and support, call center activities, electronics, production of spare parts for the automotive industry and machine building for units of many multinational companies.

The latest GSLI ranking (2023) by the leading advisors AT Kearny placed the country at the top in Southeastern Europe. It ranked 7<sup>th</sup> among all European Union countries and 25<sup>th</sup> in the world. This global offshoring index takes into account four major criteria: financial attractiveness, business environment, people skills and digital resonance.

The Sector:

- ✓ More than 77 000 people work in the sector;
- ✓ 6.6 % of GDP was generated by the sector in 2021;

Relevant Advantages:

- ✓ Bulgaria offers qualified and cost-effective workforce and advantageous rents of commercial space;
- ✓ BPO sector generated over EUR 3.3 billion operating revenues in 2021 as Bulgaria is among the best outsourcing destinations in Europe;
- ✓ The average BPO company in Bulgaria provides services in more than 25 languages.

##### 2.1.6.2. Information Technology

The Sector:

- ✓ More than 50 000 specialists work in The Sector;
- ✓ 4.5 % of GDP was generated by The Sector in 2022;

Relevant Advantages:

- ✓ Established traditions and experience in the sector;
- ✓ One of the fastest growing sectors of the economy;
- ✓ The operating revenues of Bulgarian IT Companies for 2022 grew by 25 % compared to 2021;
- ✓ About 3000 students get a degree in IT each year;
- ✓ Bulgarian Internet speed is one of the fastest in the world.

##### 2.1.6.3. Electronics

The Sector:

- ✓ More than 45 000 people work in The Sector
- ✓ 6 000 € annual wages per Employee.

Relevant Advantages:

- ✓ Availability of experienced engineers
- ✓ Qualified assembly workforce at affordable cost
- ✓ Easy access to EU, Russian and Middle East markets
- ✓ More than 75% of the production of the Electronics manufactured in Bulgaria is exported
- ✓ Bulgarian universities are working together with the companies in the sector to create qualified workforce.

2.1.6.4. Machine Building

The Sector:

- ✓ More than 200 000 people, working in The Sector
- ✓ 18% of GDP was generated by The Sector for 2015
- ✓ 5 000 € annual wages per Employee

Relevant Advantages:

- ✓ Established traditions and experience in the sector
- ✓ Continuous growth between 2000 and 2015
- ✓ Qualified work force at affordable price
- ✓ Easy access to the markets
- ✓ Networks of technical universities and colleges
- ✓ Available physical infrastructure.

2.1.6.5. Food & Beverage

The Sector:

- ✓ More than 666 000 people work in The Sector
- ✓ 5% of GDP was generated by The Sector
- ✓ 5 300€ annual wages per Employee

Relevant Advantages:

- ✓ Unique natural conditions for the cultivation of a wide variety of crops, fruits, and vegetables
- ✓ 49% of the country's territory is farming land
- ✓ A well-established infrastructure available
- ✓ Highly qualified and affordable human resources
- ✓ Strategically located to provide routes to Europe, Russia, CIS, the Middle East, and North Africa.

2.1.6.6. Bulgaria accommodates about 50 companies producing components and systems for the global automotive industry. In eight of every ten cars in Europe, the parts are produced in Bulgaria.

2.1.6.7. The country is on first place in the world in the production of lavender. For the past three years, Bulgaria has managed to surpass France from the first place and France is historically a leader in this field.

2.1.6.8. Bulgaria is the second largest exporter of sunflower seeds worldwide in 2021. Our market share in the exports of this commodity in the planet is 14.6%.

## **2.2. Diplomatic Relations**

Bulgaria is a member-state of the European Union since 2007 and a member of NATO since 2004. The diplomatic relations of the country are very well developed and are established on the modern principles of the international public law. Being a member-state of the European Union, the country's foreign policy is compliant with the common values and decisions of the European Community.

Bulgaria's strategic geographic location and well-developed energy sector make it a key European energy center despite its lack of significant fossil fuel deposits. Around 34 percent of its electricity is produced by the nuclear power station at Kozloduy and public opinion strongly supports nuclear energy development. Till several years there used to be a process of rapid expansion of alternative energy sources such as wind and solar power stations which then made Bulgaria one of the fastest-growing wind energy producers in the world. This process was slowed down as a result of some legislative changes to the regime applicable on the production and pricing in the fields of renewable energy. Nevertheless, in 2022 the country produced around 17 % percent of its electricity from renewable energy sources.

Despite tensions with North Macedonia, Bulgaria strongly supports the development and the accession of the countries from the Western Balkans to the European Union in the near future.

Detailed list of foreign countries which are established in Bulgaria or accredited to Bulgaria is available at the following link: <https://www.mfa.bg/upload/101345/Dip.List.09.2023.pdf>

## **2.3. Government, Parliament and Judicial System**

### **2.3.1. Executive and Legislative Powers**

Bulgaria is a parliamentary republic.

The main executive position is the prime minister.

Bulgaria observes the democratic principles of modern constitutional law and the rule of law principles.

The national assembly (parliament) consists of 240 deputies (MP's) elected through direct voting for a four-year mandate.

The national assembly has the power to enact laws, approve the budget, schedule presidential elections, select and dismiss the prime minister and other ministers, declare war, deploy troops abroad, and ratify international treaties and agreements.

The president serves as the head of state and commander-in-chief of the armed forces, and has the authority to return a bill for further debate, although the parliament can override the presidential veto by a simple majority vote of all members of parliament. The president of the country is elected through direct voting with a 5 years mandate.

Right to vote on elections have the Bulgarian citizens who have reached 18 years of age by the day of election including, with exception of citizens under judicial disability and imprisonment.

### 2.3.2. Judicial system

The system for administration of justice in Bulgaria is established on the basis of three instances jurisdiction. The jurisdiction is effected by courts which are established as state bodies and administer justice in civil, criminal and administrative cases.

Legal disputes are resolved by the courts and no political methods of resolving legal disputes are admissible.

There are no separate judicial systems within the country on the principle of federal or other local differentiation. The judicial system is unified, free and independent.

The disputing parties are generally free to choose the applicability of a law different from the Bulgarian under the terms and conditions of international private law and the Bulgarian Code on International Private Law. The international jurisdiction of the Bulgarian courts and other authorities shall be exclusive solely where so expressly provided for. Nevertheless, it is not possible for an investor to generally choose to be subject to the country's jurisdiction or not. Such choice may be possible only with respect to particular contractual relations and upon agreement of the parties.

At present, there are still ongoing discussions on the long-time expected judicial reform, concerning major changes in the organisation of the judicial system and also requiring Constitutional amendments.

#### 2.3.2.1. Supreme Judicial Council

The organization and activities of the Bulgarian courts are governed by the Judicial System Act, which lays down the structure and operating principles of the judicial bodies and governs their interaction with each other and with the legislative and executive bodies.

The law provides for the Supreme Judicial Council as the highest administrative authority and responsible for managing the judiciary and ensuring its independence. The Supreme Judicial Council determines the composition and organization of the judiciary and manages its affairs without interfering with the independence of the bodies concerned.

The Supreme Judicial Council determines the number of judicial districts and the seats of the district, provincial, administrative and appeal courts on the basis of a proposal by the Minister of Justice and – as regards military courts – in coordination with the Minister of Defence.

#### 2.3.2.2. Types of courts

- i) District courts – The district courts are the main courts for examining cases in the first instance. Their decisions are subject to appeal before the relevant provincial court.
- ii) Provincial courts – The provincial courts act as courts of first and second instance. As courts of first instance, they examine a precisely defined category of cases involving significant

sums or substantial societal interest. When acting as a second (appellate) instance, they re-examine decisions taken by the district courts.

iii) Administrative courts - The administrative courts have jurisdiction over all actions addressing: the issue, amendment, repeal or annulment of administrative acts; a declaration that an agreement covered by the Administrative Procedure Code is null or void; redress against unwarranted actions and omissions by the administration; protection against unlawful coercive enforcement; compensation for injury resulting from unlawful acts, actions or omissions by administrative authorities and officials; compensation for injury resulting from coercive enforcement; the annulment, invalidation or setting-aside of judgments rendered by administrative courts; a finding that an administrative act covered by the Administrative Procedure Code is not authentic.

Anyone can bring a legal action for ascertainment of the existence or non-existence of an administrative right or legal relationship, provided he or she has an interest and no other remedy is available.

Cases are examined by the Administrative Court under the geographical jurisdiction of which the seat of the authority which issued the contested administrative act is located. If that seat is located abroad, cases are referred to the Sofia City Administrative Court.

Administrative acts directly implementing Bulgaria's national foreign, defence or security policy are not subject to judicial appeal, unless otherwise provided for in law.

iv) The courts of appeal consider appeals and objections against first-instance rulings by provincial courts within their territorial jurisdictions.

v) The Supreme Court of Cassation is the supreme judicial instance in criminal and civil cases. Its jurisdiction covers the entire territory of the Republic of Bulgaria. It is seated in Sofia and exercises supreme judicial review over the proper and uniform application of laws by all courts.

vi) The Supreme Administrative Court exercises supreme judicial review over the proper and uniform application of laws by administrative courts.

The Supreme Administrative Court deals with complaints and objections against acts by the Council of Ministers, Prime Minister, Deputy Prime Minister, ministers, heads of other institutions directly subordinate to the Council of Ministers, acts of the Supreme Judicial Council, acts of the Bulgarian National Bank, acts of district governors and other acts established by statute; it adjudicates on challenges to the lawfulness of statutory instruments of secondary legislation; as a cassation instance, it examines judicial acts, adjudicates in administrative cases and examines applications for final judicial decisions in administrative cases to be set aside.

vii) Other Specialized Courts

Military courts examine, as courts of first instance, criminal cases concerning offences allegedly committed in the performance of their duties, or in connection therewith, by generals, officers, non-commissioned officers and rank-and-file in the Bulgarian army, civilian staff at the Ministry of Defence and personnel at other ministries and agencies within the structures reporting to the Minister of Defence, at the National Security Agency and at the National Intelligence Service. For such cases, the court of second instance is the Military Court of Appeal. The Criminal

Procedure Code sets out the jurisdiction of the military courts. These courts have the same status as a provincial court. There is only one Military Court of Appeal, which examines appeals and objections lodged against decisions handed down by military courts nationwide.

#### 2.3.2.3. Constitutional Court of the Republic of Bulgaria

The Bulgarian Constitutional Court acts as guarantor for the irreversibility of the democratic processes in Bulgaria, the realization of which is the Constitution's main aim. This court is not part of the judicial system; it is an independent body which derives its powers directly from the Constitution and which operates under a special law. The Court's decisions on, *inter alia*, the protection of citizens' human rights and legal interests, the separation of powers, the inviolability of private property, free enterprise, the independence of the media, the prohibition of censorship and the constitutionality of the Framework Convention for the Protection of National Minorities have won considerable public and international acclaim.

#### 2.3.2.4. Arbitration courts

Civil disputes as well as disputes about gaps to be filled in contracts or their adaptation to newly arisen circumstances, regardless whether the seat or the domicile of one or both parties is in Republic of Bulgaria can be settled by arbitration courts in accordance with the Bulgarian International Commercial Arbitration Act.

The arbitration courts settle such disputes provided they have been submitted to the particular arbitration court either by an arbitration agreement or by an international treaty. The arbitration agreement must be in writing. The agreement is deemed to be in writing provided it is contained in correspondence exchanged between the parties.

Disputes about property rights or possession of immovable as well about labour relationships may not be subject to the arbitration court.

The arbitration courts decide on their jurisdiction. The objection for a lack of jurisdiction of the arbitration court needs to be made not later than the reply to the statement of claim unless there is a reasonable excuse for the delay. The arbitration courts rule on the objection for a lack of jurisdiction either by a ruling or by the decision of the case.

The Court of Arbitration at the Bulgarian Chamber of Commerce and Industry in Sofia (BCCI) has a long history more than 110 years (since 1897) and a very well-developed practice in commercial disputes. Minding the three-instance court system of the state courts established in Bulgaria which is significantly slower the choice of arbitration at the Court of Arbitration at BCCI being the Bulgarian arbitration tribunal with the highest reputation usually allows resolving of any potential disputes in a quick and effective manner.

#### 2.3.2.5. Mediation

Pursuant to the Bulgarian legislation in force the mediation is not a part of the litigation procedure and is rather provided as a possibility for voluntary and confidential out-of-court disputes resolution with the assistance in reaching a settlement by a third-party mediator. All civil and commercial disputes can be the subject of mediation, and the law contains no restrictions in this respect. The civil court has an obligation to refer the parties to mediation several times in the course of the proceedings. If the parties decide to make use of this opportunity, they have the right to request that the court proceedings be suspended until

completion of the mediation procedure, as in the event that it is unsuccessful the court proceedings are resumed.

However, in the beginning of 2023 significant amendments in the Bulgarian Civil procedural Code, were adopted to promote the resolution of disputes within mediation procedure. These amendments shall enter into force as of 01.07.2024 and provides (in a nutshell) as follows:

- Participation of the parties in a mediation procedure becomes a condition for the further development of the judicial process in certain categories of cases, such as disputes between co-owners, disputes relating to the obligations of owners, users or occupants in a condominium, as well as disputes relating to the decisions of the general meeting and the management board of a condominium, disputes relating to the termination of a participation in a company and relating to the liability of a manager for damage caused to the company;
- the court may, at its discretion, order the parties to participate in a mediation procedure in the following categories of cases, such as divorce and disputes relating to custody and alimony, obligations of a value less than BGN 25 000, disputes regarding the existence, termination, annulment or cancellation of a contract or of a unilateral transaction with a claim value of up to 25 000 BGN, disputes over ownership and other rights in rem or for possession over property, disputes over salaries or compensations and other disputes arising from employment relations, disputes between shareholders in a commercial company or concerning decisions of the general meeting of a company, disputes concerning the protection of intellectual and industrial property rights, etc.
- Where an agreement is reached in the mediation procedure, depending on its content, the case shall be terminated or the court shall approve the settlement to become a court settlement in accordance with Article 234 within 7 days of the application to the court. If no agreement is reached or if the approved settlement relates only to part of the dispute, the court shall continue the proceedings for the remainder.
- When the dispute is resolved and the case is ended as a result of mediation, 75% of the state fee paid shall be returned to the claimant and the remaining costs shall be borne by the parties as they incurred them, unless otherwise agreed by the parties.

Pursuant to the Bulgarian legislation mediation is not applicable in the criminal proceedings.

#### **2.4. Environmental Considerations**

A number of legal provisions are regulating the environmental protection in Bulgaria. Some of them are: the Environment Protection Act, the Waters Act, the Act for Protection of the Soils from Pollution and the Waste Management Act. Besides the said acts, there are a number of separate regulations within other legal provisions concerning specific public relations. Also, multiple specialized regulations exist and apply on EU level. In this respect a significant funding is provided by the EU funds mainly for water purifying facilities and other environmentally friendly activities.

Some of the basic principles serving as grounds for the protection of the environment set forth in the relevant Bulgaria legislation include steady development, decrease of risk and prevention of human health, priority to pollution prevention over consequent elimination of pollution damages, participation of the society and transparency in the process of making decisions concerning the environment, preservation, development and protection of ecosystems together

with their biological variety, rehabilitation and quality improve of the environment in polluted and damaged regions, prevention of not polluted regions, increase of the renewable energy sources in the total energy mix of the country and of befouls into the transport system, etc.

## **2.5. Intellectual Property**

### **2.5.1. Legal framework**

Being part of most of the adopted international treaties, as well as an European Union (EU) member state, Bulgaria has a well-developed legal framework regulating Intellectual property. A number of statutory acts of primary and secondary legislation have been adopted in this sphere, protecting the various rights to objects of Intellectual, including Industrial property. Such instruments include the Copyright and Neighbouring Rights Act; the Trademarks and Geographical Indications Act; the Patents and Utility Models Registration Act; the Industrial Design Act; the Protection of New Plant Varieties and Animal Breeds Act.

The country is a party to a number of treaties and conventions, which makes it a participant on an equal footing in the European system for international registration and protection of the rights to the various Intellectual and Industrial property objects. We could cite here such international instruments as: the Paris Convention for the Protection of Industrial Property; the Hague Agreement Concerning the International Deposit of Industrial Designs; the Convention for the Protection of Literary and Artistic Works; the Universal Copyright Convention; the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; the Locarno Agreement Establishing an International Classification for Industrial Designs; the Madrid Agreement Concerning the International Registration of Marks; the Marrakesh Agreement Establishing the World Trade Organization and its annexes, the Patent Cooperation Treaty, etc.

The relevant regulations elaborated on EU level also apply to Bulgaria as a member state.

No prior approvals by investment boards or other bodies on national level apply to intellectual property rights of investors.

Usually, the management and protection of Intellectual property rights is effected through the authorization of industrial property representatives, as well as attorneys-at-law. No notarization is required with respect to the authorization of such representative to act before the Bulgarian Patent Office (BPO) on the name and on behalf of the entity applicant / owner of the Intellectual property rights. Nevertheless, there is a requirement for the documents issued by foreign states and submitted with the BPO (as excerpts from Commercial Registers), to be notarized and verified with an Apostille stamp in accordance with the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents, unless a bilateral treaty for cooperation on legal matters applies between Bulgaria and the country of origin of the respective official documents, thus waiving the Apostille stamp requirement and easing the recognition of official documents.

### **2.5.2. Outline of the main Intellectual property (IP) rights and their protection**

The main IP rights and their protection under Bulgarian law, may be outlined as follows:

#### **2.5.2.1. Patents for inventions**

**Definition and legal requirements.** To be patentable, inventions must have all of the following characteristics:

- i) Be new,
- ii) Involve an inventive step,
- iii) Be capable of industrial application.

**Restrictions.** Certain inventions are by definition excluded from protection, such as inventions the commercial use of which would be contrary to public order or morality (methods for human cloning, changing human embryo genetic identity, etc.).

**Registration.** Inventions are protected by a patent issued by the BPO, which certifies the proprietor's exclusive rights over the invention. The Republic of Bulgaria is a member of the European Patent Convention since 2002, and European patents granted by the European Patent Office also have legal effect in Bulgaria on validation.

**Enforcement and remedies.** The patent holder, and an exclusive licensee, is entitled to bring an action for infringed patent rights before the competent court to:

- i) Establish the facts of the infringement,
- ii) Claim compensation for damages and loss of profit,
- iii) Cease the infringement,
- iv) Re-process or destroy the infringing goods,
- v) Have the court judgment published in two daily newspapers at the infringer's expense.

**Length of protection.** Patents are protected for 20 years from the date of filing the application.

On 19th February 2013, in Brussels, 25 EU Member States (except for Spain, Poland and Croatia) signed the Agreement on a Unified Patent Court (the Agreement). The Act on its ratification, adopted by the Bulgarian National Assembly, was promulgated in SG No. 32 of 22th April 2016.

The purpose of the Agreement is to create a specialized patent jurisdiction – a court, along with the already established unitary patent protection in the EU under Regulation (EU) No. 1257/2012 and Regulation (EU) No. 1260/2012 of the Council. The purpose of the Unified Patent Court is to resolve infringements and validity disputes relating to European patents granted under the provisions of the EPC and European patents with unitary effect in the EU, whereas the said shall be common to all Contracting Member States and shall act in accordance with the provisions of the EU law and the European Patent Convention (1973), and its decisions shall be enforceable in any Contracting EU Member State.

The Unified Patent Court is a Court common to currently 17 EU Member States for which the Agreement on a Unified Patent Court (UPCA) has entered into force on 1 June 2023.

The UPCA is currently in force for Bulgaria.

### 2.5.2.2. Utility Models

Legal protection for utility models granted through registration with the BPO. To be registered, utility models must be new, involve an inventive step and be susceptible of industrial application. The term of validity of the registration is four years as of the filing date of the application. It can be extended by two consecutive three-year periods.

### 2.5.2.3. Supplementary Protection Certificates

The patent owner may make unlimited use of the technical solution protected by the patent from the date of filing the application, and may place the product according to the invention on the market. When the subject of the application is a medicinal product or a plant protection product, the duration of patent protection is reduced as the use of the product is delayed until the marketing authorization is obtained from the health and agricultural authorities. This period of time significantly reduces the period of protection provided by the patent, and the period of effective protection is insufficient to cover the investment made in research and development and other investments. In order to compensate for inequalities between those sectors, the European Union has adopted Regulation 1768/92/EEC (Regulation (EC) 469/2009) and Regulation 1610/96/EC in order to compensate patent holders for the lack of effective protection and to stimulate research and development in these sectors of particular importance. The Supplementary Protection Certificate (SPC) is a form of sui generis legal protection that extends the protection granted by a patent (called a "basic patent") to a medicinal product or plant protection product. The certificate application must be filed with the BPO.

### 2.5.2.4. Trademarks

**Definition and legal requirements.** A trademark is a sign capable of distinguishing the goods or services of a person (incl. entity) from those of another and which can be presented in the State Trademark Register. Such signs can be words, including names and letters, numerals, drawings, figures, the shape or packaging of the article, a combination of colors, sound signals, or any combination of these. A mark can be a trade mark, a service mark, a collective mark, or a certification mark. The right is acquired by registration and starts as of the date of the filing of an application for registration.

**Protection.** Trademarks are protected as of the date of filing of an application with the BPO, whereas the term of initial protection is 10 years. Unregistered trademarks could also enjoy protection under certain preconditions (they may serve as basis for filing of opposition against later trademark application).

**Enforcement and remedies.** This is the same as for patents (*see above, Patents*) with the additional possibility of enforcement through an administrative-penal procedure before the BPO, as well as the application of measures by the customs authorities (customs enforcement).

**Length of protection and renewability.** Protection is for ten years from the date of filing the application. The registration can be renewed for an unlimited number of further ten-year periods.

### 2.5.2.5. Registered designs

**Definition.** The design must be new and original.

**Registration.** The right to an industrial design is acquired by registration with the BPO.

**Enforcement and remedies.** The design right holder, and an exclusive licensee, have independent rights to undertake actions for infringement. The right holder has at disposal similar claims as those described above (*see above, Patents*). There is an additional possibility of enforcement through an administrative-penal procedure before the BPO, as well as customs enforcement.

**Length of protection and renewability.** The length of protection is ten years as of filing of an application for registration, after which the registration can be renewed for three additional successive periods of five years each.

### Unregistered designs

**Definition and legal requirements.** The design must be all of the following:

- i) New,
- ii) Original.
- iii) Have been made available to the public, namely to have been published, exhibited, used in trade or otherwise disclosed in such a way that in the normal course of business, these events could reasonably have been known to those in the sector concerned.
- iv) The design should not, however, be deemed to have been made available to the public for the sole reason that it has been disclosed to a third person under explicit or implicit conditions of confidentiality.

**Enforcement and remedies.** No registration is required. Unregistered designs can be protected only by EU legislation (*Council Regulation (EC) No 6/2002 of 12 December 2011 on Community designs*). Civil claims before the relevant competent court (Community design court in Bulgaria, the Sofia City Court).

**Length of protection.** The length of protection is three years from the date on which the design was first made available to the public.

### 2.5.2.6. Copyrights

**Definition and legal requirements.** Any literary, artistic and scientific work resulting from a creative endeavor and expressed by any mode and in any objective form shall be the object of copyright.

A person whose name or identifying mark is inscribed in the customary manner on the original of a work, its replicas or copies, and/or the packaging, is considered its author. An author gains copyright over their literary, artistic and scientific works with the act of objective expression of the work. Ideas and concepts are not protected copyrightable objects.

**Protection.** The copyright does not need to be registered.

**Enforcement and remedies.** The copyright holder, or a person given exclusive user rights, can bring an action against an infringer to:

- i) Claim damages immediately resulting from the infringement.
- ii) Establish the fact of the infringement.
- iii) Cease the infringement.
- iv) Seize and destroy illegitimately produced copies of the work, including negatives, master copies, printing forms and other materials.
- v) Seize and put out of operation the copying, decoding and reproducing equipment used exclusively for committing violations.

vi) Publish the court judgment in two daily newspapers and screen it on national television at the infringer's expense.

**Length of protection and renewability.** Protection lasts for the life of the author plus 70 years after their death. For works having two or more authors, the 70-year term starts at the death of the last surviving author. As regards musical works with text and dramatic-musical works, the term of protection expires 70 years after the death of the surviving author of the music or the text (regardless of whether the persons are co-authors) provided that the text and the music have been created for the purpose of being used together.

### III. Investment Incentives

3.1. Investment projects are promoted under the Investment Promotion Act (IPA) and the Regulations for Application of the Investment Promotion Act (RIPA). Depending on the size of the investment and the employment created, four types of certificates are issued:

- Certificate for the investment project - class "A" (клас "А")
- Certificate for the investment project - class "B" (клас "Б")
- Certificate for the investment project - class "C" (клас "В") – for municipal projects
- Certificate for "Priority Investment Project",

3.2. Investment certificates are issued by the Minister of Innovation and Growth at the proposal of the Executive Director of the Bulgarian Investment Agency.

3.3. The different types of certificates allow the investor to benefit from the various incentive measures and incentives:

3.4. For Class A and Class B investments:

- Shortened deadlines for administrative services (for Class A and Class B);
- Individual administrative services (for class A);
- Acquisition of ownership or limited real rights over properties without auction or competition (for class A and class B);
- Financial support for the construction of elements of the technical infrastructure (for class A or for 2 class B projects in an industrial area);
- Financial support for training for acquiring professional qualification, for those who have taken the new jobs (only for investments in high-tech activities or in municipalities with high unemployment - for class A and class B).
- Financial support for partial reimbursement of the mandatory social security contributions made by the investor at his expense, as an employer, for the additional mandatory pension insurance and for the compulsory health insurance for the newly appointed workers and employees for the implementation of the investment project (for class A and class B).

3.5. For class B investments:

- Shortened terms for administrative services provided by the municipality on whose territory the investment is carried out;
- Individual administrative services provided by the municipality on whose territory the investment is carried out;
- Acquisition of ownership or limited real rights over properties – private municipal property, without auction or competition (the measure applies if it is not requested by an investor when issuing a certificate for investment class A, class B or for a priority investment project for the same property).

3.6. Priority investment projects are promoted with the first four incentive measures for Class A and B and with the following 4-5 additional incentives:

- Institutional support through the establishment of the interdepartmental working group for administrative assistance, in a composition determined by a decision of the Council of Ministers;
- Public-private partnership with districts and municipalities, with organizations from the academic community, etc.;
- The granting of right of use or ownership of real estate for priority projects may be at prices lower than the market (but not lower than the tax assessment) and with exemption from state fees upon change of land use.
- Opportunity to provide grants for investments in manufacturing industry and in education and research.

## **IV. Financial Facilities**

### **4.1. Banking/Financial Facilities**

#### **4.1.1. General Regime**

The Credit Institutions Act provides for the existence of banks (credit institutions) and non-bank financial institutions. The subject of activity of the entities operating in the sector is explicitly laid down in the law. For instance, non-bank financial institutions are entitled to perform different types of transactions and to provide variety of services, including: provision of payment services, issuance and administration of other means of payment (payment cards, travelers' cheques and letters of credit), financial leasing, guarantee transactions, factoring, forfeiting, issuance of electronic money, etc.

During the last ten years the volume of the loans provided by non-bank financial institutions has continued its growth as the market is well established with high level of competition.

#### **4.1.2. Opening of Bank Accounts**

There is no mandatory requirement applicable to foreign investors to maintain bank accounts on the territory of the Republic of Bulgaria.

The basic set of documents requested in order for a company bank account to be opened (mainly with respect to fulfilment of statutory AML/CFT obligations under Bulgarian law) is as follows:

1. Certificate of good standing / Commercial extract for the company of the investor containing information on the current legal status and general data, subject of activity and legal representatives of the company;
2. Extract from the Book of Shareholders (or similar documents) of the company of the investor;
3. Certified copy of ID documents of the legal representatives and Ultimate Beneficial Owner(s) (“UBO”) of the company of the investor;
5. Completed standard template forms, namely:
  - Know Your Customer (“KYC”) questionnaire;
  - Politically Exposed Persons declarations;
  - UBO declaration;
  - Origin of funds declaration.

In every particular case the volume of the necessary documentation depends on the specific requirements of the respective bank.

#### 4.1.3. Financial System

Bulgaria is a free market economy with liberal financial system. There are two main authorities supervising the activities of the institutions operating in the banking sector, namely the Financial Supervision Commission and the Bulgarian National Bank.

#### **The Financial Supervision Commission exercises financial supervision over:**

- activities on the regulated securities markets, activities of the Central Depository, the Investor Compensation Fund, investment intermediaries, collective investment schemes, national investment funds and managing companies, individuals and entities managing alternative investment funds, including entities managing venture capital funds, social entrepreneurship funds or long-term investment funds, natural persons who are directly engaged in securities transactions and investment consultancy, public companies and other issuers of securities explicitly laid down in the respective legislative acts.
- activities of insurers under the Insurance Code and the Health Insurance Act, activities of reinsurers, insurance brokers and insurance agents under the Insurance Code as well as the activity of the Guarantee Fund;
- activities of supplementary social insurance companies and of the funds managed thereby according to the Social Insurance Code.

#### **The Bulgarian National Bank:**

The Central Bank of the Republic of Bulgaria has been established and operates under the Bulgarian National Bank Act.

The BNB’s major objective is to maintain price stability by ensuring the stability of the national currency. The Bank supports the creation and functioning of efficient payment systems and exerts oversight over these. It is the only issuing institution in Bulgaria and maintains the cash cycle. The BNB shall regulate and supervise other banks’ activities in this country for the purpose of ensuring the stability of the banking system and protecting depositors’ interests. The Bank carries out research work, compiles, aggregates and analyses statistical data.

Since January 1, 2007 (with Bulgaria's accession to EU) the Bank is a member of the European System of Central Banks.

Before starting business in Bulgaria, a local bank must obtain a license from the Bulgarian National Bank. For this purpose, the bank, its shareholders, members of the management board and supervisory board (or board of directors) should apply the requirements provided in the Credit Institutions Act and the relevant ordinances.

Each credit institution is monitored by means of regulatory reporting and on-site examinations covering its financial position and inherent risks management in lending and other activities. Keeping enough capital adequacy, capital buffers, asset quality and liquidity is of key importance. At a micro level supervision has the task to make sure that every bank is operating in a safe and sound way and possesses sufficient capital resources and reserves to cover the risks arising from its operations. At the same time analyses and studies are conducted of the developments and trends in the banking sector as a whole (macro level) so as to prevent or mitigate systemic risk, to avoid the spillover of adverse effects, and thus the sector would be a stable factor for economic growth.

Aggregated data on the banking system and the groups of banks are disclosed on a monthly basis, and on individual credit institutions – on a quarterly basis. The ongoing analysis of the status of the banking system, which identifies basic trends, risks and weaknesses, is a part of the quarterly bulletin 'Banks in Bulgaria'.

The Bulgarian National Bank registers and monitors the financial institutions carrying out business under the Credit Institutions Act. Also, banking supervision focuses on the compliance with other regulatory requirements and good practices in banking and finance.

#### 4.1.4. Structure of the Banking System

The banking system in Bulgaria consists in general of banks, bank groups, financial holdings, mixed-activity financial holdings and mixed-activity holdings. For instance, a bank group is present when a bank has as affiliate companies other banks, non-bank financial institutions or banks and non-bank financial institutions. As regards the legal definitions of the other institutions in the sector, all concepts comply with the respective European legislative acts (e.g. Regulation (EU) No. 575/2013), as the Bulgarian legislation is duly harmonized with the European regulations in this sphere.

Supervision on consolidated basis over these types of institutions is exercised by the Bulgarian National Bank.

#### 4.1.5. Stock Exchange

There is a Bulgarian Stock Exchange - Sofia which is currently the only one licensed and functioning stock exchange in Bulgaria. The activities of the stock market are regulated by the Public Offering of Securities Act, Markets in Financial Instruments Act, Commercial Act, Privatization and Post-privatization Control Act and the respective regulations (secondary legislation acts) of the Financial Supervision Commission.

#### 4.1.6. Bank Crediting

Bank crediting is of course available to foreign investors whereas, the specific terms under which a loan could be granted depend on the market conditions and the development of the economy and are freely negotiable.

Loans from both foreign and local affiliates come under the same thin capitalization rules.

Thin capitalization rules do not apply for bank loans.

## **V. Exchange Controls**

### **5.1. Business Transactions with Nationals, Residents or Non-Residents**

#### **5.1.1. General Principles**

As a general principle, the concept of nationals, residents and non-residents are different depending on the nature and the purpose of the legislative act, where these concepts are defined.

For instance, according to the Foreigners in the Republic of Bulgaria Act, a foreigner shall be any person who is not a Bulgarian citizen, as well as any person who is not a citizen of any state in accordance with the law thereof.

Pursuant to the provisions of the Foreign Exchange Act (FEA) "local persons" are resident units within the meaning of section 1.30 of Chapter One of Annex A to Council Regulation (EC) No 2223/96 of 25 June 1996. A unit is defined as a resident unit of a country when it has a center of economic interest on the economic territory of that country, i.e. when it engages for an extended period (one year or more) in economic activities on this territory.

Non-resident or foreign persons, according to FEA, are any natural persons or legal entities that are not compliant with the criteria provided for local persons.

Pursuant to the Income Taxes on Natural Persons Act "resident natural person," regardless of nationality, shall be any person:

- i) who has a permanent address in Bulgaria (and also whose center of vital interests is situated in the country), or
- ii) who is present within the territory of Bulgaria for a period exceeding 183 days in any twelve-month period, or
- iii) who is sent abroad by the Bulgarian State, by bodies and/or organizations thereof, by Bulgarian enterprises, as well as the members of the family of any such person, or
- iv) whose centre of vital interests is situated in Bulgaria (relevant criteria here are family, property, professional or economic activity, etc.).

Respectively, a "non-resident natural person" shall be any person who does not meet the requirements for a resident one.

The Corporate Income Tax Act lays down another definition of the above-mentioned concepts. According to its provisions, "resident legal entities" shall be:

- i) any legal entities incorporated under Bulgarian law;
- ii) any companies incorporated under Council Regulation (EC) No 2157/2001 (European companies), and any cooperative societies incorporated under Council Regulation (EC) No 1435/2003, where additional requirements also apply.

That being said, "non-resident legal entity" shall be any entity which is not a resident one.

#### **5.1.2. Restrictions on Conducting Business with Nationals, Residents or Non-Residents**

The foreigners residing in the Republic of Bulgaria have all rights and obligations according to the Bulgarian laws and the ratified international agreements to which the Republic of Bulgaria is a party except these for which Bulgarian citizenship is required.

For foreigners using diplomatic or consular immunity the generally accepted standards of the international and consular law apply as well as the ratified international agreements to which the Republic of Bulgaria is a party.

### 5.1.3. Reporting Requirements

Upon entry into the Republic of Bulgaria, foreigners are required to declare the purpose of their visit in the country and to state in writing a residence address in Bulgaria, completing a registration card in a standard form approved by the Minister of Interior. This obligation shall not be applicable to foreigners, crossing the territory of the Republic of Bulgaria, as they are not obliged to complete such registration cards.

There are no legally prescribed restrictions and limitations for foreign investors to receive loans from nationals, residents or non-residents.

## 5.2. Investment Controls

### 5.2.1. Restrictions on Direct or Indirect Investment in the Country

Generally, there are no restrictions on direct investment in the country. A foreign investor is entitled to participate or to be a sole owner of the capital of companies established in the Republic of Bulgaria under its laws.

Bulgaria is largely open to FDI. There are no legal limits on foreign ownership or control of firms. With some exceptions, foreign entities are given the same treatment as national firms and their investments are not screened or otherwise restricted. There is strong growth in software development, technical support, and business process outsourcing.

National treatment of foreign investors in the post-establishment phase is guaranteed, which means that foreign investors, when incorporated and headquartered in Bulgaria, are considered domestic legal entities, with all the rights and obligations that are applied to domestic investors. The existing exceptions to national treatment are limited to foreign ownership restrictions in a handful of sectors, namely in the acquisition of non-agricultural and agricultural land, forestry, air and maritime transport and legal services as well as restrictions for the provision of rail transport and mining. Also, by way of exception, the 2014 Offshore Companies Act<sup>8</sup> lists nearly 30 activities banned for business by companies registered in tax havens and the entities under their control, but the Act also provides a number of exceptions. There also are specific restrictions on foreign investments in the gambling industry under the 2012 Gambling Act. However, these restrictions basically apply to countries that are not members of the European Economic Area (EEA) or the EU. Regulatory restrictions on business activities such as licensing, registration and permission requirements sometimes imply corporate registration under the laws of Bulgaria or another EU or EEA Member State, but this is not in itself an obstacle to investment because foreign investors are free to incorporate or participate in Bulgarian companies.

Other barriers to foreign direct investment mainly concern conditions imposed at establishment (e.g. establishment requirements for investment in energy, private security, legal services and selected financial services), fall outside the remit of the Investment Declaration. These barriers

are few, mostly sector-specific, and typically limited in their scope, applying almost exclusively to investors from outside the EU, the European Economic Area (EEA) or Switzerland, or to investors from countries that are not WTO members.

There are no generalized screening or approval mechanisms for new investments or established companies in Bulgaria and the only horizontal exception to national treatment is related to the foreign acquisition of land (for commercial purposes and real estate) in Bulgaria for investors from outside the European Union and the European Economic Area (EU/EEA). Bulgaria does not impose limits on access to local finance and incentives (e.g. tax concessions) or government purchasing markets for foreign-controlled enterprises incorporated in the territory.

#### *Government control over certain industry sectors*

##### *Forestry*

The Bulgarian state enjoys exclusive ownership rights over the vast majority of forests located in the country (Bulgarian Constitution, Article 18). Nonetheless, certain wooded areas are open to acquisition and exploitation by EU and EEA companies, as established in the Forestry Act.

Non-EU/EEA foreign legal persons may acquire wooded areas pursuant to the provisions of an international treaty in accordance with Article 22 of the Constitution, as well as by way of legal inheritance (Article 23.5 of the Forestry Act). To date there are no such international treaties concluded with third countries. In the absence of such treaty, foreigners that have acquired ownership right of wooded areas by way of legal inheritance must, within three years from discovery of such inheritance, transfer ownership thereof to Bulgarian or EU/EEA persons or companies entitled to acquire such properties (Article 24 of the Forestry Act). Third-country foreigners may nevertheless bypass these restrictions by incorporating a company in Bulgaria, in which case the company will be treated as a Bulgarian national.

As for the activity of wood processing in Bulgaria, it is usually reserved to incumbent wood processors, since wood in state-owned forest areas (the vast majority of forests) can only be obtained through auctions. According to the Ordinance on the control and protection of forest areas (Number 1 of 30 January 2012, Article 13) only registered wood processors can participate in auctions for the purchase, processing and use of wood from state-owned forests. In order to determine if a company qualifies as a “wood processor”, it must submit a proof of the volume of processed wood during the previous calendar year, in a registered establishment inside Bulgaria. Although this requirement grants an advantage to locally established firms, foreign investors face no restrictions for the acquisition of a Bulgarian wood-processing firm.

##### *Air transport*

Bulgaria maintains restrictions for enterprises that are majority-owned by foreign investors, other than EU/EEA investors, to obtain an air transport license and to manage and operate civilian airports.

Restrictions to obtain an air transport license derive from EU Regulation 1008/2008, which states that airlines licensed to operate in an EU country must be majority owned and effectively controlled by EU Member States or nationals of an EU member country, unless otherwise provided for through an international agreement to which the EU is a signatory (Articles 3 and 4).

Bulgaria has transposed EU Regulation 1008/2008 into the Civil Aviation Act of 1972, under which licenses for the provision of air transport can only be granted to companies where at least half plus one of the shareholders are EU/EEA Member States or EU/EEA nationals (Article 64). In addition, air transport companies and companies dedicated to the management and operation of civilian airports in Bulgaria must be controlled, directly or indirectly by EU/EEA Member States or EU/EEA nationals

The air transport sector showed substantive growth after Bulgaria's accession to the EU, due to the development of business and tourism industries and targeted investment policy. Bulgaria's aircraft fleet was updated and the international airports in Sofia, Varna and Burgas underwent modernization programs to improve their competitiveness through the EU funded 2014-20 Operational Program on Transport (OPT).

#### *Maritime and inland waterways transport*

There are two main international ports on the Bulgarian coast: the port of Varna and the port of Burgas. These ports and their adjacent terminals are open to international freight traffic, without any differentiation as to who owns the freight. As for internal water transport, the four major river ports on the Danube have open access for foreign vessels and foreign shipping companies, with restrictions for the provision of inland water services (cabotage). Since Bulgaria's accession to the EU, extensive investment has been dedicated to modernize logistic, navigational and information systems for the Black Sea and the Danube River, improving navigation conditions and reducing the risk of incidents.

Transportation within the territory of Bulgaria (cabotage) can be provided only by vessels using the Bulgarian flag or that of an EU country (Shipping Merchant Code, Article 6). Third-countries may only provide these services by entering into an international treaty with Bulgaria or, in the absence of such treaty, via a decision of the Council of Ministers. At present Bulgaria is not a party to any international treaty permitting vessels from third countries to provide transportation within the territory of Bulgaria (cabotage). In addition, such a permission has not been granted by the Council of Ministers to any third country.

The Shipping Merchant Code provides that the Bulgarian flag is to be granted only to vessels that are: i) property of the Bulgarian State; ii) property of Bulgarian or EU natural or legal persons; iii) more than 50% owned by a Bulgarian natural or legal person (Article 27).

Third-country foreigners may own a vessel flying the Bulgarian flag by incorporating a company in Bulgaria, in which case the company will be treated as a Bulgarian national. This is also the case for enterprises providing maritime services, which must be incorporated in Bulgaria, however with no limitations for foreign investors to own or manage the enterprise established in Bulgaria.

#### *Rail transport*

Railway infrastructure in Bulgaria is managed by the National Railway Infrastructure Company, which is a state-owned enterprise. Foreign railway operators licensed and certified in an EU Member State have the right to carry out passenger and/or freight transportation by rail, and to access the relevant infrastructure of Bulgaria. Railway operators licensed by a third country railway administration may use the Bulgarian railway infrastructure to conduct its transportation services if so provided in an international agreement ratified by Bulgaria (Article 43, Paragraph 2 of Railway Transport Act). No such agreement has been concluded or ratified by Bulgaria,

thus no non-EU/EEA railway operators is allowed to conduct railway transportation services in the country.

Although Bulgaria's railway density is relatively high – with 500 km of railway network per million inhabitants and 1 189 km<sup>2</sup> of lines per 10 000 km<sup>2</sup>, above the EU average of 437 km per million inhabitants and over 500 km<sup>2</sup> of lines per 10 000 km<sup>2</sup> (Global Mass Transit, 2017), as noted in Chapter 3 of this Review, considerable parts of the railway lines have been constructed more than 60 years ago and are suitable for speeds of only up to 100 km/h. In recent years, financial assistance from the EU has helped improve the technical conditions of Bulgaria's railway infrastructure. In addition, network connections with neighbouring countries are being improved, as for example the creation of a railway link with the Republic of North Macedonia expected to be concluded before 2027. For the period 2015-19, the annual funding from the EU dedicated to railway infrastructure was estimated at approximately EUR 140 million according to the 2014-20 Operational Program on Transport (OPT).

### *Mining*

Bulgaria allows for foreign investment in mining, with certain restrictions. A permit or concession is necessary for the prospecting, exploration or extraction of natural resources, including thorium ores.

Companies registered in preferential tax treatment jurisdictions and those related, directly or indirectly, to such companies are not allowed to participate in open procedures for mining permits or concessions, and to operate an existing permit or concession. This restriction extends to the registration of geological or commercial discoveries of a deposit, as a result of exploration.

#### 5.2.2. Information Requirements on the Nature of the Investment

There are no generalized screening or approval mechanisms for new investments or established companies in Bulgaria and the only horizontal exception to national treatment is related to the foreign acquisition of land (for commercial purposes and real estate) in Bulgaria for investors from outside the European Union and the European Economic Area (EU/EEA). Bulgaria does not impose limits on access to local finance and incentives (e.g. tax concessions) or government purchasing markets for foreign-controlled enterprises incorporated in the territory.

However, depending on the structure and the nature of the transactions performed, there might be some declaration obligations provided for prevention of money laundering under the Measures against Money Laundering Act (MAMLA) and the Foreign Exchange Act.

For instance, persons performing a transaction or deal through or with persons/entities exhaustively listed in the MAMLA (e.g. credit institutions, financial institutions, insurers, re-insurers, insurance agents, collective investment schemes, investment intermediaries, leasing entities, National Revenue Agency authorities, etc.) at a value exceeding BGN 30,000 or respectively exceeding BGN 10,000 in cases where the respective payment is made in cash, shall be obliged to declare the origin of the funds. Furthermore, the above-mentioned persons/entities are obliged to require such declarations prior to fulfilment of such transaction or deal.

### **5.3. Money Transfer**

#### 5.3.1. Determination of Exchange Rates

Generally, there is a free determination of the exchange rates. However, it should be taken into account that exchange rate of the Bulgarian currency towards the Euro currency is fixed whereas the official Euro/Bulgarian lev (BGN) exchange rate of the Bulgarian National Bank is Euro 1: BGN 1.95583.

### 5.3.2. Restrictions on the Transfer of Money Into or Out of the Country

No restrictions apply for the transfer of money into or out of the country. Nevertheless, some obligations of rather informational nature are provided for in the Foreign Exchange Act. Suppliers of payment services shall perform cross-border transfers and payments after they have been presented with a description of the grounds on which the respective transfer is made. A person making a cross-border transfer or payment to a third party in the amount of BGN 30 000 or more, shall provide to the supplier of payment services information and documentation as required by a joint regulation issued by the Bulgarian National Bank and the Minister of Finance.

### 5.3.3. Restrictions on the Remittance of Profits Abroad

Generally, there are no such restrictions. Still, depending on the specifics of each case, the international tax treaties concluded between Bulgaria and other countries should be considered.

### 5.3.4. Reporting Requirements

Apart from the information about the grounds of the transfer, suppliers of payment services collect information for the needs of the balance of payments statistics and keep respective registers concerning any transaction or payment between a local and a foreign person, as well as of any cross-border transfer or payment exceeding specific amount as determined by law.

Local legal entities shall be obliged to report, on a quarterly basis to Bulgarian National Bank their receivables from and liabilities to foreign persons, and their direct investments made abroad.

Local natural persons shall report, on an annual basis by 31 March to Bulgarian National Bank their receivables from and liabilities to foreign persons under financial credits if the sum total of such claims or liabilities exceeds the BGN equivalency of BGN 50 000 as of 31 December of the previous calendar year.

Also, transactions in connection with the initial making of direct investments abroad by local legal entities as well as for the purposes of providing credit between local entity and foreign person shall be subject to reporting with the Bulgarian National Bank within 15 days after the transaction is closed.

### 5.3.5. Rules and Restrictions on Taking of Hard Currency out of the Country

Natural persons may carry unlimited quantities of cash across the border of the country while subject to observance of some obligations.

The regulations in this regard are different depending on whether the transfer of money into or out of Bulgaria is performed for/to countries members of the EU or for/to third countries. The carrying of cash in the amount of EUR 10 000 or more for/to a third country must always be declared before the customs authorities. In contrast, in case the money is carried for/to countries members of the EU, the declaration obligations are in effect only upon request of the customs authorities.

Furthermore, if BGN 30,000 or more is carried in cash across the border of the country to a third country, the customs authorities shall check whether the person has unpaid outstanding public obligations (to the State budget), whereby in event such obligations exist, the carrying shall be stopped and National Revenue Agency has to be alarmed to impose security measures, upon its discretion.

Transfer of cash through postal consignments shall be prohibited with the exception of declared value consignments.

## **VI. Import/Export Regulations**

### **6.1. Customs Regulations**

#### **6.1.1. Memberships in international unions relevant to trade and customs regulations**

Bulgaria has been a member of WTO and of GATT accordingly since 1 December 1996. As of 1 January 2007, it is a member State of the European Union and the EEC accordingly.

Being a member of the EU, Bulgaria has undertaken to follow the customs policy of the EU. Thus, free trade agreements with other countries from the Balkans exist as a part of the EU policy and country accession processes. Particularly, such agreements are in force with the Former Yugoslav Republic of Macedonia since 2004, the Republic of Albania (since 2009) and the Republic of Montenegro (since 2010), where some preferential trade conditions are provided. Also, temporary agreements are concluded with Bosnia and Herzegovina (2008) and the Republic of Serbia (2010) regulating trade matters among others.

As a Member State of the EU Bulgaria is bound with the free trade agreement (of 31 December 1995) establishing a Customs Union with Turkey. It covers all industrial products and does not cover agricultural goods services and public procurement.

#### **6.1.2. Evaluation and clearance of goods by customs authorities**

The method of customs valuation is based on the transaction value - price actually paid or payable for the goods when sold for export to the customs territory of the Union, additionally adjusted on the basis of particular specifically listed criteria.

Imported goods need to be presented to the customs authorities upon import in Bulgaria (i.e. in EU) accompanied with an entry summary declaration. On certain occasions simplified customs declaration may be sufficient upon the discretion of the customs authorities. Goods are customs cleared after verification of the particulars in the customs declaration, inspection of the goods by the customs authorities and payment of applicable import duties and taxes accordingly applicable for the particular import.

Customs regimes are regulated by Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (in force as of 1 May 2016) which represents the common legal framework on customs matters applicable to all Member States, including the Republic of Bulgaria.

#### **6.1.3. Applicable tariffs**

Applicable are the tariffs as per TARIC – the integrated Tariff of the European Union. It is a multilingual database in which all measures relating to EU customs tariff, commercial and agricultural legislations are integrated. TARIC ensures equal application of the measures by all

Member States enabling all economic operators a clear view of all measures necessary to be undertaken when importing or exporting goods into the EU or from EU. It also allows collecting of EU-wide statistics for the measures concerned. TARIC is accessible on the following link: [http://ec.europa.eu/taxation\\_customs/dds2/taric/taric\\_consultation.jsp?Lang=en](http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en)

## **6.2. Exports**

Generally, the export and/or import controls of certain categories of goods (e.g. products subject to CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora), some cultural goods, products and equipment containing fluorinated greenhouse gases, veterinary controls on animals and food, etc.) could be subjected to restrictions.

Export licenses may apply in specific cases. For instance, subject to import/export control requirements and restrictions are also defence related and possible dual-use items related.

Particular regime and restrictions apply to human blood, plasma and tissues, pharmaceuticals (on certain occasions), narcotic substances and precursors (for medical use), sources of ionizing radiation (if they do not constitute dual-use items), nuclear material, etc.

No particular export duties apply.

## **6.3. Foreign Trade Regulations**

All EU regulations, as well as many multilateral and bilateral agreements to which the EU is a party apply and may have impact on various business activities. Therefore, when a particular undertaking is related to the import or export of goods the possible implication of these regulations and agreements should be considered.

## **6.4. Imports**

### **6.4.1. Import licenses and applicable duties**

Import licenses are required for some specific goods (defence related and dual use items, sources of ionizing radiation, nuclear material, etc.), for import of cereals and rice in EU. Imports are in general subject to the issuing of a standardized import license and payment of the applicable fee.

For certain import good the import fees are determined as variable, for others are fixed.

In pursuance to the EU's commitments under the World Trade Organization (WTO) a number of fixed import quotas are in place at a lower or zero duty.

The applicable import duties are provided for in the integrated Tariff of the European Union – TARIC and are generally fixed as percentage of the value of goods. Some floating duties are provided for as well.

### **6.4.2. Import quotas**

Import quotas exist for certain products, mostly of agricultural origin. They rather constitute an exception and allow, during the period of validity of the measure and for limited quantities, a total waiver (total suspension) or partial waiver (partial suspension) of the regular duties applicable to the import of such goods. In the framework of several agreements that the EU has concluded with third countries, as well as in the framework of autonomous preferential arrangements for some beneficiary countries, tariff concessions are provided for a pre-determined volume of goods - "preferential tariff quotas".

“Autonomous” quotas may also apply which represent tariff suspensions for some economic sectors, where it is necessary to stimulate competition by low tariffs. Their role is to stimulate the economic activity of Union industries, improving competitive capacity, creating employment, modernizing structures etc. They are normally granted to raw materials, semi-finished goods or components not available in the EU (suspensions) or which are available but in insufficient quantities (tariff quotas), but no tariff quotas are granted for finished products.

Antidumping duties are not affected by these suspensions.

#### 6.4.3. Import barriers

Anti-dumping duty may be applied to any dumped product whose release for free circulation in the Community is able to harm the EU market. Anti-dumping measures may be taken by the European Commission upon complaint filed by a European producer. The detailed legal frame of the matter is set through Regulation (EU) 2016/1036 of the European Parliament and of the Council of 8 June 2016 on protection against dumped imports from countries not members of the European Union.

### 6.5. **Manufacturing Requirements**

No manufacturing requirements apply that impose products to contain exclusively ingredients or components, which are found or produced only in the country.

No import limitations apply either permitting importation of certain component parts only provided that they are ultimately incorporated in a final product

### 6.6. **Product Labelling**

The legislative framework applicable to labelling and packaging is generally based on the provisions of the Bulgarian Consumer Protection Act which is harmonized with the EU consumer protection regime. The legal framework covers the general obligation of merchants to provide consumers with the relevant information about the offered products and services.

In particular labelling/packaging of goods includes few main aspects: products must be labelled in Bulgarian language and mandatorily contain information on the producer and/or importer, the type of the product, its essential characteristics, the minimum date of expiry and the storage conditions and, if necessary, instructions for use. The information contained on the label must be comprehensible, accessible, clear, easily identifiable and not misleading.

There are also many secondary legislative acts dedicated to provide detailed requirements on the labelling of various groups of products like non-food products, food products, chemical products etc. Specific rules apply for labelling of medicinal products, medical devices, food supplements, cosmetic products and others.

## VII. **Structures For Doing Business**

There are several types of companies in Bulgaria (basically more or less like in every EU country) that include capital and personal corporate entities. Such are the limited partnership, general partnership and limited partnership with shares, the limited liability company and the joint stock company. Here we would mainly consider the two most popular and appropriate forms for doing business, which are preferred and which are namely the capital entities as the

others are usually considered to be not very practical and therefore irrelevant in the case of investing and doing business.

Among the two types which are usually selected for doing business – the limited liability company and the joint stock company for larger projects it is normally recommended to use a joint stock company (AD) as a more adequate and prestigious form of corporation. It is also more suitable for 50/50 company as the legal possibilities e.g. for exclusion of shareholders are more limited and better mechanisms for control can be introduced as well as it is easier to transfer shares, etc., even though the limited liability company (OOD) has some lighter elements in the management.

Recent amendments to the Bulgarian Commercial Act of 1 August 2023 introduced the regulation of the Variable Capital Company (DPK), which is expected to enhance the conditions for the registration of startups in Bulgaria and make fundraising easier. However, this will not happen before 30 June 2024, when is the deadline for the Registry Agency, which manages and maintain the Commercial register, to provide the technical opportunity for the implementation of these amendments.

The VCC will be an alternative to the limited liability company (“LLC”) and the joint stock company (“JSC”), combining their advantages and being a mix of personal and capital companies.

## **7.1. Governmental Participation**

### **7.1.1. Participation of the state in the ownership or operation of the entity**

After the democratic changes as a key condition for the overall transformation into a free market economy, an approximately 20-year long process of privatization took place encompassing various privatization methods and technics. At present most of the state-owned enterprises are owned by private individuals or legal entities of Bulgarian or foreign origin. The Bulgarian state has preserved control mostly over enterprises of national or strategic importance.

There are no activities and businesses in which the participation of the state or municipalities is regulated as a general precondition.

The state and municipalities participate in single owned companies (limited liability or joint stock companies) established by virtue of respective special laws.

### **7.1.2. Investor’s potential liability**

Where the state or municipalities participate in legal entities (commercial companies) in the capacity as single owner or in partnership with private individuals or entities to the extent this is admissible, the liability of the investor is limited to the amount of the latter’s participation – see section 7.2.4. and 7.3.4. below.

### **7.1.3. Restrictions on capitalization**

Restriction on capitalization apply in accordance with the regime applicable to the respective legal form of establishment of the particular entity. Specific requirements may apply by virtue of special laws designated to the particular company with state or municipal ownership.

### **7.1.4. Tax consequences**

Please see section XII below.

## 7.2. Joint Ventures

### 7.2.1. General regime

The joint stock company AD (in Bulgarian “акционерно дружество”, abbreviated “АД”) or single owned joint stock company (in Bulgarian “еднолично акционерно дружество”, abbreviated “ЕАД”) is the other common alternative beside the limited liability company for the establishment and performance of business activity in Bulgaria. It is usually utilized to create certain (even though not absolute) anonymity of the shareholding structure and to create better control mechanisms between the shareholders through the appointment and rules for the functioning of the respective collective management bodies. The minimal capital here is BGN 50,000 (approx. EUR 25,000). The capital of the company has to be transferred into a deposit account in the name of the company prior to registration.

Shares can either be registered, bearer shares or book-entry shares. Preferred shares can also be issued. A share entitles its owner to:

- One vote in the general meeting of shareholders.
- A dividend.
- A share in the assets in case of liquidation (in proportion to the nominal value of the share).

### 7.2.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of a joint-stock company include:

- i) Articles of association of the new company signed by all founding partners respectively by the sole owner of the capital;
- ii) Incorporation protocol (minutes) signed by the founders (the sole owner) deciding on the main parameters of the company such as the name, the commercial activity, the capital and equity shares and the appointed directors accompanied with a list of the founders, certified by the members of the board;
- iii) Resolution for subscription of shares of the competent bodies of the owners of the shares;
- iv) Statement under article 160 of the CA signed on behalf of the founders - legal entities (that are not insolvent);
- v) Resolution of the Board for appointment of executive director/s;
- vi) Notarized statement of consent by the executive director and specimen of his/her signature (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- vii) Notarized declaration from the appointed members of the board of directors for compliance with certain conditions, listed in Article 234 of the CA (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- viii) Declaration from the appointed members of the board of directors for compliance with certain conditions, listed Article 237 of the CA;
- ix) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act (required for all fillings in the Commercial Register);

- x) Certificate from the bank for the transfer of the incorporation capital;
- xi) Management contracts with the members of the Boards and specifically with the Executive Directors.

7.2.3. Besides the said documents if the owners are foreign corporate entities, they need to present commercial register excerpts (with a view to the requirements listed in point iii) above) that prove that the respective company is duly registered and existing, which are its managing bodies and what rights do they have to represent the company and take decisions in the name of the company e.g. for establishment of a subsidiary. Such excerpts have to be attested with an Apostille (unless there is a treaty for legal aid between Bulgaria and the respective other country) and then be locally translated and verified, which has to be counted with when time is of the essence. The normal local verification procedure should not last more than a week.

Shareholders agreements are possible with regard to the AD, though they are not explicitly regulated; they could even be subjected to foreign law. Yet, in order to create better preconditions for enforcement and publicity (i.e. assumed to be known to any third parties) of the shareholders agreement it is recommendable its provisions or parts thereof, to the extent possible, to be reproduced also in the company's articles of association.

The capital of the company has to be transferred into a deposit account, opened in a Bulgarian bank in the name of the company prior to registration. With the increase of the AML requirements in the recent 3-4 years, the opening of a bank account for a company has become an uneasy and time-consuming task.

Registration usually takes up to 3 business days, once all necessary documents are filed with the Commercial Register.

The related expenses are usually up to EUR 500 including notary and state registration fees, bank fees for the opening of an account and issuance of a certificate for paid-in capital.

#### 7.2.4. Participation of a national of the country or a related state

Both, the shareholder(s) and the managing director(s) in a Bulgarian company can be foreigners. There is no mandatory requirement for participation of a Bulgarian national or a related states' (EU, ECC etc.) national as a shareholder or managing director. There are also no limitations to a company with a single or multiple EU or non-EU owners compared to Bulgarian owned companies, with the exception of certain limitations which may apply with respect to ownership of land, agricultural land, buildings, etc. and certain limitation applicable to owners from jurisdictions with preferential tax treatment.

#### 7.2.5. Investor's potential liability

Investors' potential liability is in general limited to the amount of their capital contribution.

Members of management bodies of both AD (joint stock companies) and OOD (limited liability companies) companies may be held liable both under civil and/or administrative liability.

Members of the management bodies of joint stock companies (management board, supervisory board and the board of directors) can have a civil liability for damages caused by:

- Transactions that have not been sanctioned by a collective body.

- Transactions that go beyond the usual operations of the company or are executed outside normal market conditions.

Administrative liability can arise under the:

- Tax and Social Insurance Procedure Code in case of:
  - ✓ Failure to properly disclose relevant facts to the authorities.
  - ✓ Making payments from the company's property in bad faith, constituting a hidden profit or dividend distribution.
  - ✓ Transferring any of the company's property for no consideration or for consideration that is substantially lower than the market price.
- Protection of Competition Act if an individual:
  - ✓ Fails to supply information required by the Commission on Protection of Competition. The fine can range from BGN 500 to BGN 25,000; or
  - ✓ Commits or assists a violation. The fine can range from BGN 500 to BGN 50,000.

Criminal liability can arise for crimes against the creditors, including:

- Deliberate bankruptcy.
- Imprudent bankruptcy.
- A failure to request insolvency proceedings where appropriate.

#### 7.2.6. Restrictions on capitalization

The minimum legally prescribed amount of the registered capital of a joint stock company under Bulgarian law is BGN 50,000 (approx. EUR 25,000). With respect to joint stock companies a possibility for an *ex officio* termination of the company by the court is provided for when the net value of the company's assets drops below the amount of the registered capital, if within a period of one year the general meeting fails to adopt a resolution to reduce capital, to transform or terminate the company. Still, very rarely met in practice.

#### 7.2.7. Tax consequences

Please see section XII below.

### **7.3. Limited Liability Companies**

#### 7.3.1. General regime

This is the most common legal form for exercising of business activity through a subsidiary in Bulgaria - OOD (in Bulgarian “дружество с ограничена отговорност”, abbreviated “ООД”) or respectively EOOD in case of single owner of the capital (in Bulgarian “еднолично дружество с ограничена отговорност, abbreviated “ЕООД”).

The limited liability company is usually chosen in the cases of sole-owned subsidiaries because of the minimum requirements with respect to the registered capital – BGN 2 (approx. 1 EUR), the simple management structure – performed by one or more managing directors managing and representing the company jointly or separately, subject to resolution of the single-owner of the authorized capital and without a collective management body, and the lower expenses for registration (usually up to EUR 250).

Each shareholder must have a share in the company's assets. The amount can either be determined in proportion to the shareholder's interest in the registered capital or otherwise agreed. Each shareholder is entitled to:

- Take part in the management of the company.
- Participate in the distribution of profits.
- Be informed of the company's affairs.
- Review the company's books.
- Liquidation proceeds.

#### 7.3.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of a limited liability company include:

- i) Articles of association of the new company signed by all founding partners, respectively by the sole owner of the capital;
- ii) Incorporation protocol (minutes) signed by the founders (the sole owner) deciding on the main parameters of the company such as the name, the commercial activity, the capital and equity shares and the appointed managing directors;
- iii) Resolutions of the competent bodies of the owners of the shares for the incorporation;
- iv) Notarized statement of consent by the manager/s and specimen of his/her signature (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- v) Declaration from the appointed manager for compliance with the certain conditions, listed Article 142 of the CA and Article 141, Para 8 of the CA;
- vi) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act (required for all filings in the register),
- vii) Certificate from the bank for the transfer of the incorporation capital;
- viii) Management contract with the managing director(s).

7.3.3. The considerations pointed above in 7.2.3 and 7.2.7 as regards the joint stock companies apply *vis-à-vis* to the limited liability companies (OOD or EOOD), as well.

### **7.4. Unlimited Liability Companies**

#### 7.4.1. General regime

The unlimited nature of liability in this type of company makes it not quite appropriate and therefore seldom used for doing business.

Even though they are not so popular, unlimited liability companies (in Bulgarian “*събирателно дружество*”, abbreviated “СД”) exist under Bulgarian law as a possible structure for doing business in the country.

#### 7.4.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of an unlimited liability company include:

- i) Agreement on the incorporation of the new company signed by all founding partners (at least two; no single-owned unlimited liability company is admissible) – in written form with notary certified signatures;
- ii) Incorporation protocol (minutes) signed by the founders deciding on the main parameters of the company such as the name, the commercial activity, representation;
- iii) Notarized statement of consent and specimen of the signature of the partner(s) authorized to represent the company (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- iv) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act.

7.4.3. The considerations pointed above in 7.2.3 and 7.2.4 as regards the joint stock companies apply *vis-à-vis* to the unlimited liability companies (SD), as well.

#### 7.4.4. Investor's potential liability

The liability of the investor in this type of companies is unlimited and moreover the investor jointly liable with the company towards all creditors of the company.

#### 7.4.5. Restrictions on capitalization

Restrictions on capitalization are not applicable to unlimited liability companies since they are according to Bulgarian law legal entities of non-capital character.

#### 7.4.6. Tax consequences

Please see section XII below.

### **7.5. Partnerships, General or Limited**

#### 7.5.1. General regime

General partnerships (in Bulgarian “*командитни дружества*”, abbreviated “*КД*”) are also regulated under Bulgarian law as a possibility for structuring of a business. Similar to the unlimited liability companies, they are not very popular as they are not considered as most appropriate business structure, minding the unlimited liability for some of the partners and also the different regime of the partners' liability and participation.

The general partnership is regulated as a partnership between two or more partners, whereas one or several of the partners – *complementaries*, have joint and unlimited liability, while the other one or several partners bear liability limited to the amount of their agreed participation. The general partnership under Bulgarian law is usually regarded as a combination between the unlimited and the limited liability company.

The limited partnership on the other hand is regulated and regarded as a combination between the unlimited liability and the joint stock company with the main difference from the general partnership being the structuring of the capital. The number of the limited liable partners in a limited partnership is at least three.

#### 7.5.2. Incorporation – procedure, time-frames, related expenses

The list of the documents necessary for the establishment of an unlimited liability company include:

- i) Agreement on the incorporation of the new company signed by all founding partners (at least two; no single-owned unlimited liability company is admissible) – in written form with notary certified signatures;
- ii) Incorporation protocol (minutes) signed by the founders deciding on the main parameters of the company such as the name, the commercial activity, representation;
- iii) Notarized statement of consent and specimen of the signature of the unlimited liable partner(s) (with Apostille if not signed in Bulgaria or a country with which Bulgaria has a Legal Aid Treaty);
- iv) Formal statement by the person authorized to represent the company under Article 13, para 4 of the Commercial Register Act.

7.5.3. The considerations pointed above in 7.2.3 and 7.2.4 as regards the joint stock companies apply *vis-à-vis* here as well.

#### 7.5.4. Investor's potential liability

The liability of the investor in this type of companies is unlimited joint liability towards all creditors of the company for the unlimited liable partners - complementaries and accordingly liability limited by the amount of the agreed participation for the limited liable partners.

#### 7.5.5. Restrictions on capitalization

Restrictions on capitalization are not applicable to general partnerships liability (in Bulgarian “командитни дружества”, abbreviated “КД”) as according to Bulgarian law they are legal entities of non-capital character.

### **7.6. Partnerships, Undisclosed**

Not regulated under Bulgarian law.

### **7.7. Sole Proprietorships**

#### 7.7.1. General regime

To be able to register as a sole proprietor an investor needs to have a place of residence in Bulgaria. This legal form for doing business in Bulgaria is rather unpractical and therefore not recommended - along with the unlimited personal liability restrictions would also apply with respect to the purchase of land by a foreign national who acts as a sole proprietor. Thus, an appropriate approach would be for a investor to establish a sole owned limited liability company (EOOD).

#### 7.7.2. Incorporation – procedure, time-frames, related expenses

Sole proprietor is registered with the Commercial Registry where for the purpose an application has to be submitted, indicating the name, seat, registered address, object of activity, etc. of the enterprise and a notarized signature specimen by the individual.

The related expenses are usually up to EUR 50 including notary and state registration fees.

#### 7.7.3. Investor's potential liability

Unlike limited liability companies and joint stock companies which have their own property and assets, separate from the property and assets of their shareholders, there is not differentiation

between the individual and the sole proprietor. Though caselaw upholds on some occasions that a sole proprietor should be liable for the debts of his/her “enterprise” with the assets of the latter, in reality very often the potential liability is unlimited.

#### 7.7.4. Restrictions on capitalization

No restrictions on capitalization apply to sole proprietorships.

#### 7.7.5. Tax consequences

Please see section XIII below. Possible are two alternative regimes – tax on the income of individuals or patent tax.

### **7.8. Subsidiaries/Branches/Representative Offices**

#### 7.8.1. General regime

Foreign legal entities who have the right to carry out commercial activity according to their national legislation can establish in the country representative offices (RO). RO is registered in the Bulgarian Chamber of Commerce and Industry. It is not a legal entity and cannot perform commercial activity.

A foreign legal entity, entitled to carry out commercial activity according to its respective national law, may also establish a branch office (BO) in Bulgarian. BO is registered with Commercial Registry. It is not a stand-alone legal entity, independent legal entity from its parent, though the BO is obliged to have its own bookkeeping and prepare its own balance sheet.

Foreign companies may also freely establish subsidiaries in Bulgaria as independent legal entities in any of the legal forms admissible under Bulgarian law – usually these are joint-stock companies or sole-owned joint-stock companies, respectively limited liability companies of sole-owned limited liability companies.

The subsidiaries are registered with the Commercial Registry and their legal regime is the respective regime provided for the relevant legal form of establishment (see 7.2. – 7.6. above).

#### 7.8.2. Incorporation – procedure, time-frames, related expenses

The procedure for registration of a RO before the Bulgarian Chamber of Commerce and Industry and usually takes around a week. The costs for registration of a subsidiary depends on the form of the subsidiary (limited liability company, joint stock company, etc.).

The incorporation procedure for the establishment of a BO before the Commercial Registry and usually takes up to 3 business days after submission of the relevant documentation. The related expenses are usually up to EUR 250 including notary and state registration fees.

#### 7.8.3. Participation of a national of the country or a related state

As long as the RO and BO are not stand-alone legal entities separate from their “parent-companies” this is of no relevance in respect of them. There is no requirement these to be managed by a Bulgarian national either.

#### 7.8.4. Investor’s potential liability

The BO’s parent company shall liable for all obligations of the branch towards third parties. However, a BO may be brought to litigation in certain occasions.

7.8.5. Restrictions on capitalization do not apply with respect to the BO, but apply as regards their parent.

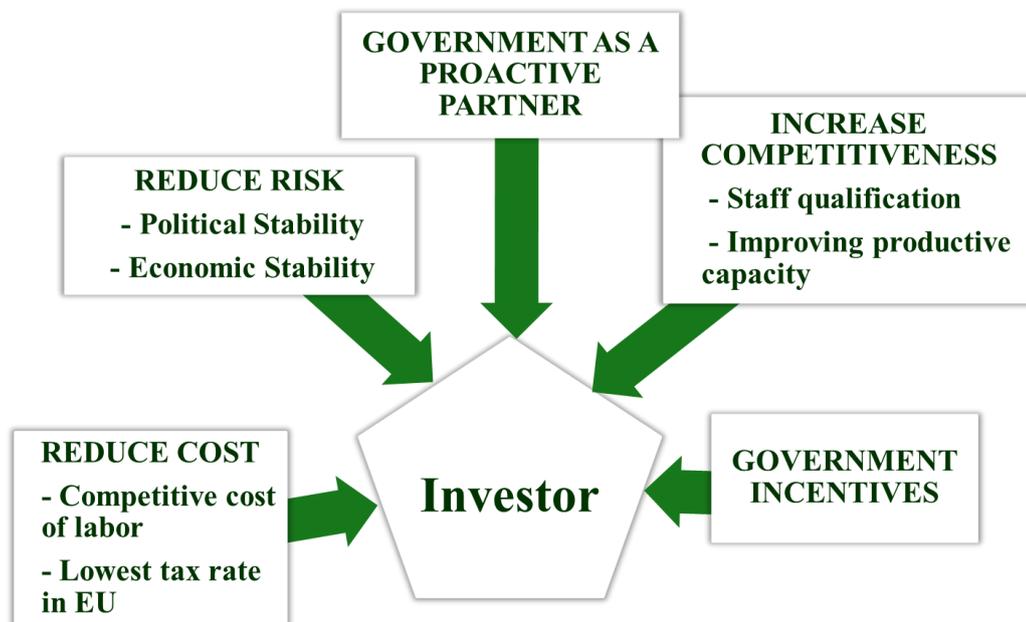
7.8.6. Tax consequences

The corporate taxes applicable to the other legal entities established as commercial companies apply to the branches as well – please see section XII below.

### 7.9. Trusts and other Fiduciary Entities

Not regulated under Bulgarian law.

## WHAT BULGARIA OFFERS



## VIII. Requirements For The Establishment Of A Business

### 8.1. Alien Business Law

In principle, the Bulgarian legislation is applied to the establishment of business in the country. In theory, where international elements exist which according to the rules of international private law result in the application of alien business law, such may be applied. Also, international treaties may apply to certain aspects of business activity.

### 8.2. Antitrust Laws

#### 8.2.1. Restrictive agreements and practices

The Bulgarian Law on Protection of Competition applies to all undertakings and associations of undertakings that operate in Bulgaria, or beyond it (regardless of the place of registration), should they prevent, restrict, or distort competition in Bulgaria.

Liability arising from violations of the Law on Protection of Competition may be administrative and/or civil. There are no criminal penalties for violations of the competition rules.

Restrictive agreements and practices are regulated and Bulgarian law is harmonized with EU competition law. Local regulations, such as Article 15 and 21 of the Law on Protection of Competition, follow Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

#### 8.2.2. Unilateral conduct

The competition law regulates the activities of firms with a dominant market position and prohibits the abuse of such a position. Also, Bulgarian competition law is harmonized with EU competition law and local regulations follow Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

The Bulgarian competition law prohibits actions or omissions by undertakings of stronger bargaining positions when contracting if such actions or omissions:

- Contradict good faith commercial practices and
- Impair or may impair the interests of the weaker party when contracting, or the interests of the consumers.

Actions or omissions that are regarded as not being in good faith include those that:

- Have no objective economic ground, such as unjustified refusal to deliver or purchase goods and services.
- Impose unjustifiably burdensome or discriminatory terms or unjustified termination of the commercial relations.

The existence of a stronger bargaining position is considered depending on the characteristics of the structure of the respective market and the specific legal relationship between the affected undertakings. This is while taking into account the degree of dependence between them, the nature of their activity and the difference of the size of such activity, the probability of finding an alternative trade partner, including the existence of alternative sources of supply, distribution channels and/or clients.

### 8.2.3. Merger Control

A transaction between independent companies (regardless of their place of registration) that results in a permanent change in control exercised over the participants in the concentration, and which affects the Bulgarian market (that is, there is a local nexus), is subject to merger control by the Competition Protection Commission, if the thresholds are met.

A relevant transaction can include:

- A merger or acquisition between two or more independent undertakings.
- When one or more persons who already control at least one undertaking purchase securities, stakes or property, for example through a contract, and gains direct or indirect control over other undertakings or parts of undertakings.
- The establishment of a joint undertaking that permanently performs the functions of an economically independent subject.

Control manifests itself in the acquisition of rights, conclusion of contracts or other courses of action which, independently or jointly, and in view of the existing factual circumstances and applicable law, give decisive influence over an undertaking.

The connection with the territory is assessed according to the turnover realised by the participants in Bulgaria during the preceding financial year.

The concentration is subject to advance notification before the Bulgarian Competition Protection Commission if the sum of the total turnovers of all undertakings participating in the concentration on the territory of the Republic of Bulgaria for the previous financial year exceeds BGN25 million and either:

- The turnover of each of at least two of the undertakings participating in the concentration in Bulgaria for the previous financial year exceeds BGN 3 million.
- The turnover of the undertaking which is the object of acquisition on the territory of the Republic of Bulgaria for the previous financial year exceeds BGN 3 million.

### **8.3. Environmental Regulations**

The business may be subject of such environmental regulation depending on the kind of the performed activity. For example, according to the Environmental Protection Act, the persons wherein the activities involve generation and/or treatment of waste shall be obliged to ensure the recycling and safe disposal of the said waste in a manner that does not present a hazard to human health and to employ methods and modern technologies. Such additional obligation to the investors may reflect on the general costs involved.

### **8.4. Government Approvals**

Explicit government approvals do not apply in general to doing business in the country. There are of course particular regulated fields of activity where explicit permits or approvals may be required for instance banking activity, insurance, health service, transport etc. In such case the term, conditions and procedures for obtaining the necessary permits and approvals depend on the specific type of activity.

## 8.5. Insurance

The enterprise is not obliged in principle to carry insurance with the exception of some explicitly regulated types of activities for which a requirement for obligatory insurance including also professional insurance is provided (for example in the sphere of construction works, transportation). In general, the compulsory insurance needs to be established by virtue of a law or by international treaty ratified, promulgated and enforced in the Republic of Bulgaria.

There is no state monopoly on the insurance activity and there are numerous private companies licensed and performing this activity.

## 8.6. Licenses/Permits

License or permit regime may apply depending on the specific activity performed. Several types of regimes may be applied for the different activities:

- i) Registration regimes as far as they may apply require the announcement of the performed activity and the terms and conditions of performance of such activity before the respective competent register;
- ii) Permit or license regimes as far as they may apply require the obtaining of a respective permit or license before commencing the operation the specific field of activity.

The terms and conditions, the related fees, timeframes and procedure applicable to the regime for obtaining permit or license and for registration are different and regulated in the respective specialized legislation.

## IX. Operation Of The Business

### 9.1. Advertising

The general regulation of advertising is mainly related to protection of competition and protection of the consumers of some specific products. From the competition perspective, the Bulgarian legislation prohibits misleading advertisement and the prohibited comparative advertisement.

The advertisement which in any way, including by the manner of its presentation, misleads or may mislead the persons it targets or reaches and therefore possibly influences their economic behavior, and thereby harms or may harm a competitor, must be considered misleading.

Comparative advertisement should be any advertisement which directly or indirectly identifies a competitor or goods or services offered thereby. The Competition Protection Act provides for some explicitly described hypothesis where the comparative advertisement should be allowed.

From a consumer protection perspective, the local legislation also provides for limitation of advertisement in the following cases:

- i) Cigarette products;
- ii) Alcohol products;
- iii) Gambling.

Restrictions on advertising apply also to certain professions like for instance to the activity of lawyers, which according to the relevant legal and ethical rules is prohibited to be advertised.

## **9.2. Attorneys**

There is no mandatory requirement to have a local counsel. However, this is very recommendable considering the necessary to have extensive experience and the in-depth knowledge of the local legislation and practice and the business climate and specifics of the country.

It is also possible even though not very popular to use a foreign attorney in Bulgaria, provided that the requirements for the foreign attorney specified in the Attorneys Act have been fulfilled.

Beside the bar association which keeps a public registry of all attorneys and legal offices admitted to act on the territory of the country, there are also different publications from national and international character which publish ranking of the law firms with reputation and experience in particular fields of law.

Also, some of the foreign embassies (for example the US embassy) and international chambers of commerce and industry maintain lists of the reputable law firms active in the country.

As far as the levels of attorneys' fees are concerned the minimum is regulated by virtue of an ordinance of mandatory nature, issued of the Supreme Bar Council. The amount and structure of attorneys' fees vary depending on the type of work involved.

## **9.3. Bookkeeping Requirements**

There are mandatory bookkeeping requirements applicable to entities active in Bulgaria. There are annual obligations for publishing of the companies' annual financial statements, consolidated statement if applicable etc. before.

Other general requirements which apply to the bookkeeping include the requirement for the primary accountancy documents of the enterprises to be drawn up in Bulgarian language with Arabic figures and in Bulgarian national exchange currency. The bookkeeping documentation can also be drawn up in the respective foreign language in Bulgarian currency and in foreign currency for transactions contracted in foreign currency with foreign contractors.

The accountancy documents received in the enterprises in a foreign language have to be accompanied with a translation in Bulgarian.

National and certain international accountancy standards apply.

## **9.4. Business Ethics/Codes**

Business and professional ethics codes have been developed and apply in many spheres.

## **9.5. Consumer Protection Laws**

Depending on the specific investor's operations and their dedication at final consumers, consumer protection requirements would usually apply.

Particular significance is placed on product liability and product safety which are regulated by the Consumer Protection Act. The purpose of the Act is to ensure protection of consumers' rights including: the right for information about products and services, the right to obtain redress for damage caused by defective products, the right to access judicial and out-of-court procedures

for the resolution of consumer dispute. There is a special Commission for Consumers protection which aims to provide effective control on the consumers' market by applying national and European policies regarding consumers' protection. .

In general, the producer, the distributor and the merchant are responsible for damages caused by stock defects.

Damages can be recovered for:

- i) Death or physical injury;
- ii) Damage to personal property of more than BGN1000;
- iii) All other damage under the civil law rules.

The producer is responsible irrespective of whether they caused the defect.

## **9.6. Construction**

Construction is carried out on the grounds and within the parameters of a construction permits.

The costs of construction depend on the project and its evaluation.

Construction is carried out in compliance with approved investment projects. The investment projects are being submitted with the municipality, in the region of which the construction shall be executed. After the submission of the investment project, the Chief Architect of the respective municipality issues a sketch (visa) for designing. The investment project is subject to co-ordination and approval by the competent authorities and serves as basis for issuing a construction permit. The construction permit is issued by the Chief Architect of the municipality and for the towns with district division – upon decision of the municipal council – by the chief architect of the district.

A permission for construction of sites of the technical infrastructure, with a scope of and of significance for more than one municipality, is issued by the regional governor, and the permit for construction of sites with a scope and significance for more than one region and of objects of national importance - by the Minister of Regional Development and Public Works.

The co-ordination of the preliminary design should be completed within a term of one month upon receipt of the written request. After this period the investment designs are either approved or returned with instructions for reworking. The approved constructions designs lose their validity in case the investor does not submit a request to receive permission for construction within a term of one year after the approval of the investment designs.

The fees involved are stipulated in a special tariff, issued by the Council of Ministers. Generally, the fees are estimated as a percent from the construction value of the site.

The necessary steps of the construction process go through:

- i. Applying for visa for designing from the Chief Architect of the Municipality;
- ii. Signing preliminary contract with the electricity provider;
- iii. Signing preliminary contracts with the water supply providers;
- iv. Request and obtain preliminary assessment of the building for its compliance with energy efficiency requirements from licensed company – every investment project for construction, reconstruction and modernization (on the basis of which permission for

- construction is granted) must be assessed for its compliance with the energy efficiency requirements;
- v. Obtaining of decision from the Director of the Regional Inspectorate of Environment and Water - The Law on Environment Protection (Appendix 1 and Appendix 2) defines the investment projects that are subject to an environmental impact assessment;
  - vi. Obtaining approval of the investment project design from a hygiene epidemiological expert;
  - vii. Obtaining final construction approval from the Chief Architect of the Municipality;
  - viii. Signing a contract with a construction surveillance company;
  - ix. Signing a contract with water supply provider and for receipt of connection;
  - x. Mapping the building on the cadastre map, maintained by the Agency for Geodesy, Cartography and Cadastre;
  - xi. Construction Surveillance – filing of report on the completed construction;
  - xii. Registration of a technical passport with the Chief Architect of the Municipality;
  - xiii. Filing of a copy of the registered technical passport with the Agency for Geodesy, Cartography and Cadastre;
  - xiv. Requesting and obtaining certificate for energy efficiency;
  - xv. Inspection by the Municipality;
  - xvi. Obtaining approval of the building and occupancy permit from the Municipality.

### **9.7. Contracts**

The general contractual freedom as well as the *pacta sunt servanda* principle, established in most of the continental legal systems, are applicable also in Bulgaria.

Investors are free to enter into local contracts and generally the same regulatory framework applies to both foreign and local investors, with some exceptions concerning for example the purchase of real estate, agricultural land and certain other spheres of national priority.

The choice of another country's law is possible provided that some international element pertains to the contract (party, place of delivery of the good or service, etc.), following the principles and rules of international private law and as far as there are no particular restrictions within Bulgarian law. Limitations in this respect include for example the rights over real estate, the status of the entities, labor relations, formal requirements for the legal transactions and non-contractual relations.

### **9.8. Price Controls**

Price-formation is free and generally follows the demand and supply principle, except for particular sectors and limited activities which are explicitly regulated under the local legislation, such as electricity transmission and supply, water, gas etc.

### **9.9. Product Registration**

Product registration regimes may apply to certain products like food, alcohol, cigarettes, drugs and medicinal products. The registration is performed before different state authorities depending on the competencies assigned to them according to the applicable laws.

The proceeding of registering, the competent body and the fees involved depend on the type of the product.

### **9.10. Reductions or Return on Capital**

Capital cannot be repatriated while the corporation is still operating and existing, unless a procedure for capital decrease takes place within the legally admissible frames. The effect of capital “repatriation” could also be achieved on annual basis through dividend distribution.

### **9.11. Sale of Goods**

Merchants are free to determine how to perform their trading activity in accordance to the legal requirements for the particular types of goods. There are specific requirements for the places for trade with some goods, for example with foods, medicines, inflammable or explosive materials and goods etc.

### **9.12. Trade Associations**

Trade associations are known and exist under Bulgarian law. Participation in trade associations is nevertheless not mandatory. Such associations allow coordination between independent enterprises as long as such coordination does not fall under the restrictions according to competition protection law under which coordination within such association may be treated as prohibited exchange of information or other type of activity which might infringe the competition by representing prohibited agreement.

Prohibited are all types of agreements between undertakings, decisions by associations of undertakings as well as concerted practices of two or more undertakings having as their object or effect the prevention, restriction or distortion of competition on the relevant market. The prohibition specifies a list of the most common forms of the prohibited conduct which is not exhaustive:

- directly or indirectly fix prices or other trading conditions;
- share markets or sources of supply;
- limit or control production, trade, technical development or investment;
- apply to certain partners dissimilar conditions for equivalent transactions, thereby placing them at a competitive disadvantage;
- make the conclusion of contracts subject to acceptance by the other party of supplementary obligations or to the conclusion of additional contracts which, by their nature or in accordance with commercial usage, have no connection with the subject of the main contract or to its performance.

The general prohibition under Article 15 of the Competition Protection Act is identical to the prohibition of Article 81 of the Treaty establishing the European Community (EC Treaty) and similarly to it declares all agreements and decisions that fall within its scope to be null and void (Article 15 (2) of the Competition Protection Act).

The participation in trade associations may be related with certain annual participation fees or other contributions depending on the agreed terms and conditions for participation in the particular association.

### 9.13. Anti-Money Laundering Regulation (AML)

The Bulgarian Anti-Money Laundering regulations are based on the EU-AML legislative package, including Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (“AMLD 5”).

According to the AML regulations currently in force in Bulgaria, the measures for the prevention of money laundering and the control of illegal activities in the country are carried out by a wide range of obliged entities, including, but not limited to banks and financial institutions, investment intermediaries, notaries, persons who professionally provide legal advice, accountants, auditors and other obliged persons and entities, defined comprehensively in the local Measures Against Money Laundering Act (“MAMLA”).

The local authority, responsible for supervising the fulfilment of the obligations arising with respect to the obliged persons under the local MAMLA, is the “Financial Intelligence” Directorate with the State Agency for National Security (“SANS”).

Generally, the anti-money laundering measures encompass the carrying out of strict due diligence of the business partners or customers of the respective obliged person, which includes identification on the basis of personal documents (ID cards, passports), gathering information (about the origin of funds used in the respective transaction, data on the ultimate beneficial owner of the respective business partner or customer etc.) and assessing the purpose and nature of the business relationship.

The conducted due diligence report shall be kept and updated on strictly defined periods, depending on the identified risk profile of the respective business partner or customer. Moreover, depending on the business partner’s or respectively - the client’s risk profile, simplified, standard and enhanced due diligence must be carried out.

The obliged persons must also adopt certain AML-related internal documents (internal rules, methodologies for risk profile identification etc.) ensuring the internal control and prevention of potential money-laundering activities within their business relationships with business partners or customers.

Moreover, the obliged persons under the MAMLA are required to adopt an Internal Risk Assessment, which constitutes an internal corporate document, which shall be in full compliance with the Bulgarian National Risk Assessment, adopted by the local authorities, as well as with the Sector Risk Assessment (in case such is adopted). The purpose of the adoption of the Internal Risk Assessment is to ensure the identification of all the risks of money laundering and terrorism financing arising from the performance of the ordinary business activity of the respective obliged persons, thus aiming the mitigation of the potential risk of such criminal activities.

From an investor perspective, it is noteworthy that when a new business is established in Bulgaria, it will be subject to the application of AML/CFT measures in relation to the incorporation of a new company locally and the opening of an accumulation bank account. The bank procedures are strict in this regard and follow the best risk mitigating practices established on EU level.

## 9.14. Personal Data Protection

### 9.14.1. General Information

The personal data matters in Republic of Bulgaria are directly regulated by the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the General Data Protection Regulation and/or GDPR). On local level the Bulgarian Parliament has adopted the Personal Data Protection Act (in force since 01.01.2002, lastly supplemented and amended on 02.02.2023, State Gazette No. 11), which further develops puts detail in the data privacy aimed with the GDPR.

In general terms, the local Personal Data Protection Act (PDPA) mirrors almost fully the provisions of the GDPR, stipulating, as mentioned specifics related to certain data processing activities, such as ones carried out in employment context (in fulfilment of Article 83 of GDPR), and for journalistic purposes. Naturally, PDPA envisages the status of the national Data Protection Authority – the Bulgarian Commission for Personal Data Protection (CPDP), as well as regulates in detail registrations of Data Protection Officers, complaints and other various procedures to be carried out before and by the CPDP.

Within its regulatory practice CPDP is guided by the numerous statements, guidelines, recommendations and opinions adopted by the European Data Protection Board and the European Data Protection Supervisor. Moreover, the local DPA also closely adheres to the case-law formed by the Court of Justice of the European Union under preliminary reference procedures. In this context, the regulatory practice of the local DPA does not significantly deviate from those adopted by other EU DPAs.

### 9.14.2. Specifics

The PDPA regulates certain types of data processing activities in supplementation to the provisions of the GDPR. As indicated, these processing activities relate to employment and journalistic matters.

For example, as per the PDPA employers and appointing authorities, in their capacity of data controllers, are explicitly required to adopt and maintain certain internal rules and procedures related to:

- Implemented system of reporting infringements related to data protection obligations stemming from the applicable legislation;
- Implemented access control systems related to the data processing activities.

Furthermore, employers and appointing authorities may not retain personal data related to staff recruitment procedures for a duration exceeding 6 months, unless explicit consent has been obtained from the respective job candidate. This statutory term commences as of the data of the final completion of the procedure, or as of the expiration of its appeal period.

Other legal acts, including sub-legislative, contain various statutory terms for processing of certain categories of personal data. Examples include specific terms for processing of tax and accountancy documentation for 10 years, 50 years for payroll documentation and data contained in labour dossiers. In addition, CPDP has had the opportunity to reaffirm in its regulatory practice that standard statutory term of 5 years for initiating and/or defending against legal

claims applies to personal data contained in civil or commercial agreements commencing as of their termination.

On separate note, according to PDPA's legal provisions, when processing personal data for journalistic purposes (as well as for purposes of academic, artistic or literary expression), several GDPR requirements (Articles 6, 9, 10, 30, 34 and Chapter Five of the GDPR) do not apply. Additionally, in these cases data controllers and processors may refuse the complete or partial exercise of data subjects' rights under Articles 12 - 21 of GDPR.

#### 9.14.3. Procedures and Privacy Litigation

In case of breaches of data subjects' rights under GDPR and local law, the affected individuals are entitled to file a complaint to the CPDP within 6 months of becoming aware of the violation, but no later than 2 years from its occurrence. Complaints that are submitted anonymously, including those lacking a physical or electronic signature, will not be registered or become subject to investigation.

Upon submission of a complaint, CPDP is obliged to inform the complainant of the progress or outcome of the complaint within 3 months of referral. The decision of the DPA may consist of imposing penalties as per Article 83 (incl. Chapter Nine) of the GDPR and/or corrective measures under Article 58, para. 2, letters "a" to "j" or Article 80, para. 1, items 3, 4, 5 of the PDPA (i.e., to warn the data controller that processing operations violate the provisions of GDPR, that certain operations must be aligned with local and EU law, to temporarily or permanently restrict, including prohibit, the processing of data).

Decisions of the CPDP may be appealed before local administrative courts within 14 days.

Litigation matters aside, when data protection officer (DPO) is appointed by the data controller and/or processor, the latter must inform in advance the CPDP as regards to the names and contact details of the respective DPO.

## **X. Cessation or Termination of Business**

### **10.1. Termination**

#### 10.1.1. Liquidation in general

In the cases of deleting a sole entrepreneur or winding up for reasons of liquidation of local legal entity from the Commercial Register, the tax administration needs to be notified in advance before the application for liquidation is submitted to the Commercial Register. Such notification is necessary in order to make sure that the tax authorities will carry out their respective investigation to establish any unsettled tax obligations of the company under liquidation.

In the course of the liquidation procedure also a procedure is carried out before the National Social Security Institute. The aim of such procedure is to finalize any outstanding social security obligations of the company under liquidation and the collect the necessary documentation and information concerning former employees of the company under liquidation. This is done with a view to collecting the necessary documents to establish the length of service of the persons who worked in the liquidated undertaking for the purposes of their pension.

At the date of entry of the dissolution in the Commercial Register corporate tax shall be due which is assessed on the basis of the tax profit of the company for the period from the beginning

of the respective year until the date of entry of the dissolution. The tax shall be remitted within thirty days after the date of entry of the dissolution. The corporate tax remitted upon dissolution is deducted from the annual corporate tax due for the year of dissolution or from the corporate tax due for the last tax period.

The shares in a liquidation surplus, if distributed to foreign companies, shall be taxed with a withholding tax of 5% or 10% depending on the specific requirements stipulated in the Corporate Income Tax Act.

#### 10.1.2. Costs involved

Mandatory registration costs of approximately BGN 200.00 would apply for the registrations and announcements which need to be made before the Commercial Register. Other costs depend on the case, such as remuneration of the appointed liquidator, legal support, accounting advisors, etc.

#### 10.1.3. Time-frames

The expected minimum time-frame for the accomplishment of the liquidation procedure under Bulgarian law, provided that the company is free of assets, liabilities and receivables, which would need to be cashed out, would be not less than 7 months.

There is a mandatory minimum legal term of 6 months for the invitation to the company's creditors to file their claims against the undertaking. This term could not be avoided.

In the remaining 1 month of the estimated time-frame there need to be taken into account: the technical terms (approx. 3-5 working days for each separate case) necessary for the notification of the competent tax authorities, the preparation of closing balance sheet, and the registration of the deletion of the company.

Besides, it needs to be taken into account that although the tax authorities usually act within 1 week, the legally prescribed term for them to issue a certificate confirming their notification of the planned liquidation procedure is 60 days. Thus, as far as the obtaining of such certificate is a precondition for the initiation of the liquidation in the Commercial Register, theoretically the procedure could legally be delayed with such 60 days-term, i.e. in worst case scenario 9 months.

10.1.4. The procedures for liquidation of the most common forms for exercising business activity in Bulgaria – the limited liability company and the joint-stock company, are relatively similar and in general include:

##### 10.1.4.1. Resolution of the general meeting on the dissolution of the company and opening of liquidation procedure

The liquidation procedure is initiated with the adoption of resolution by the company's general meeting of the shareholders for (1) dissolution of the company, (2) opening of liquidation procedure and determining its term, (3) appointment of liquidator and determining the liquidator's remuneration.

##### 10.1.4.2. Commencement of the liquidation procedure

Upon the liquidator's appointment the latter has to notify the local office of the National Revenue Agency about the resolution for dissolution of the company. At this stage the law does not explicitly provide for an obligation of the tax authorities to perform tax audit of the

dissolved company. However, it is in the discretion of the tax authority to decide whether such audit should be performed.

The dissolution of the company, the opening of liquidation procedure, as well as the name of appointed liquidator are subject to registration with Commercial Register. Upon completion of this registration, the liquidator becomes a lawful representative of the company and the phrase “in liquidation” is added to the company’s name indicating the existence of an on-going liquidation procedure with respect to the company.

#### 10.1.4.3. Announcement of an invitation to the company’s creditors to claim their receivables

The invitation is prepared by the liquidator, addressed in writing to the identified creditors, as well as announced in the Commercial Register, which is considered as invitation to the creditors of the company, who have not been identified yet at that stage.

#### 10.1.4.4. Determining the value of the company’s property

It is the liquidator’s obligation to identify the properties of the company, to determine their amount and to complete an initial balance sheet as of the date of dissolution, as well as explanatory report to the balance sheet. Prior to completing the balance sheet, the liquidator should perform an inventory and evaluation of each separate asset and property of the company.

#### 10.1.4.5. Satisfying of company’s creditors

Upon ascertaining the value of the company’s property, the liquidator has to finalize any ongoing transactions and collect the company’s receivables, to cash in the available property and satisfy the company’s creditors. At this stage the liquidator may conclude new contracts in the name and on behalf of the company only to the extent this appears necessary for the purposes of the liquidation procedure.

Bulgarian laws provide also for a possibility that separate assets of the company’s property in a liquidation procedure to be transferred to the single owner or to the company’s creditors, if the latter agree, and provided that the rights of the remaining creditors and shareholders are not affected.

Upon satisfying the claims of the creditors, the non-collectable receivables of the company may be written-off.

#### 10.1.4.6. Distribution of remaining assets

Distribution to the shareholders of the assets of the company that have remained after all claims of creditors have been satisfied (or secured in case of pending litigations) is possible only upon expiration of at least six months as of the announcement of the invitation to the creditors in the Commercial Register.

At this stage of liquidation process the liquidator has to prepare a closing balance sheet, which is approved by the general meeting of the shareholders.

Also, at this stage the liquidator should be released from liability for his/her actions also by means of explicit resolution of the general meeting of the shareholders.

#### 10.1.4.7. Closing of the liquidation procedure. Deletion of the company

Having settled all outstanding obligations of the company and ensured distribution of the remaining company’s assets to the general meeting of the shareholders, the liquidator may

request deletion of the company as legal entity from the Commercial Register. For this purpose, the liquidator files respective application to the register accompanied by documents evidencing that the liabilities of the company have been settled as required by law and that all other statutory requirements concerning the liquidation process have been met.

Beside the above steps the business can be terminated without a specific government approval or intervention. Particular regulated fields of activity may of course require specific additional approvals and permits.

If in the course of liquidation, the company turns out unable to cover its obligations with the funds and assets insolvency proceedings have to be initiated. The insolvency proceedings are regulated as universal enforcement mechanism against the entire property of the company aiming at providing equitable satisfaction of creditors and opportunities for institution of recovery procedures in order to avoid insolvency proceedings as far as possible.

Insolvency proceedings create mechanisms to involve all creditors including among other the state and the debtors' employees.

## **10.2. Insolvency/Bankruptcy**

10.2.1. Generally, in limited liability companies and joint stock companies, the liability of the investor is limited to the amount of the latter's participation in the capital. In this respect, in case of insolvency the creditors of the company shall be satisfied through the property of the company and the personal property of the investor shall hardly be affected (regardless whether the investor is a natural person or legal entity).

Nevertheless, as far as the opening of insolvency proceedings create the possibility certain transactions (part of them involving related parties) to be declared under particular circumstances null and void, the theoretical possibility for the property of shareholders to be indirectly affected remains.

Besides, pursuant to the law in case of insolvency or over-indebtedness the managing body of the company is obliged to file a petition for institution of insolvency proceedings within 30 days. The petition shall be submitted by the debtor, through the latter's managing director or managing body, respectively liquidator of a company or through a partner with unlimited liability. Possible liability may be borne by the investor if the investor is involved in the management of the company and fails to observe this obligation. In such the investor as a part of the management of the company shall be liable jointly and severally before creditors for damages caused by such failure. Hypothetically criminal liability cannot be excluded in such case.

### 10.2.2. Possibility for recovery proceedings within the insolvency

In order to avoid insolvency reorganization proceedings are available before the creditors and the debtor. Within such proceedings rescheduling of certain payments may be agreed, release from liability in full or in part, reorganization of the enterprise, or undertaking of other appropriate acts or transactions are possible upon the decision of the creditors.

The right to propose a reorganization plan can be exercised by:

- i) The debtor;
- ii) The insolvency administrator;

- iii) The creditors holding at least one -third of the secured claims;
- iv) The creditors holding at least one -third of the unsecured claims;
- v) The partners, the stockholders respectively, who hold at least one -third of the capital of the debtor company;
- vi) An unlimited partner;
- vii) Twenty percent of the total number of the debtor's workers and employees.

The above persons may propose more than one reorganization plan in the insolvency proceedings.

Upon the decision for affirmation of the plan, the court discontinues the insolvency proceedings. In certain cases, however, when the debtor does not fulfil the obligations under the reorganization plan, the creditors may request a renewal of the insolvency proceedings.

## **XI. Labor Legislation, Relation And Supply**

### **11.1. Employer / Employee Relations**

#### **11.1.1. Legal Framework**

The Bulgarian Labor Code (State Gazette No. 26/01.02.1986) regulates employment relationships irrespective of the employees' nationality. Most of its provisions are mandatory and cannot be excluded by choice of law or even by the common will of the parties. The Labor Code covers the regulation on commencement, amendment and termination of employment, the working hours, breaks and vacations, payment of wages, damage liability of the parties and employment disputes. A lot of bye-laws regulate the vacations, sick leave, the employment remuneration, business trips, and so on. The health and safety conditions at work are regulated in detail by a specific Act (Act on the Health and Safety Conditions for Work). There is very strong protection for employees as well as even higher protection for some employees (for example: the employees in the maternity leave, mothers of small children, disabled persons, etc.) They can be released only after the permission of the Labor Inspectorate Agency and enjoy more favorable working conditions.

The Labor Migration and Labor Mobility Act sets provisions for the access to the labor market of employees who are third country nationals for example through an intra-corporate transfer or the issuance of a blue card for high-skilled workers.

#### **11.1.2. Employment Agreement**

A written form of the employment agreement is required. The agreement must include the job position, working hours, commencement of the work, remuneration and frequency of its payment, the term of the advance notice for termination and the workplace. The mandatory provisions of the Labor Code apply to the individual employment agreement, as well as collective agreements if such exist on national, branch or enterprise level and to the extent that they provide for more favourable terms and conditions than those set forth in the individual employment agreement.

#### **11.1.3. Mandatory Training**

In principle, training of employees for a certain job position is not a mandatory requirement. However, the Health and Safety Conditions at Work Act and respective by-laws provide for obligations of the employer with respect to health and safety requirements which require mandatory briefings or trainings of the workers and employees prior to commencement of the assigned work, to work with certain equipment or to observe approved procedures and working methods, as well as to members of the so-called occupational health and safety committees or groups in the enterprise.

## **11.2. Employment Regulations**

### **11.2.1. Hiring of Nationals**

In case an investor wishes to hire personnel from a third country (outside the EU, the EEA or the Swiss Confederation) there some mandatory requirements under the Labor Migration and Labor Mobility Act regarding the maximum percentage of foreign workers may apply depending on the applied ground for issuance of a work permit to a third country national.

The act provides that the total number of third country nationals working for a local employer (investor) over the past 12 months could not exceed 20% of the average number of the hired persons on an employment contract, or 35 % for small and medium-sized business. Moreover, to employ a foreign national (outside the EU, the EEA or the Swiss Confederation), an employer must prove there is no available Bulgarian or EU/EEA professional qualified for the job. The above requirements do not apply as far as high skilled employees are concerned.

### **11.2.2. Minimum Wage**

The minimum monthly wage is determined with the Annual State Budget Act and is currently set to the amount of BGN 780 (approximately EUR 390).

### **11.2.3. Maximum working hours**

The standard working week regulated by the law is 5-day with a normal duration of the weekly working time of up to 40 hours. The normal duration of the working time during the day is set to up to eight hours. The duration of the daily and weekly working time may only be extended as an exception within certain limits under the terms and conditions provided by the law.

### **11.2.4. Mandatory Vacation and Sick Leaves**

The minimum duration of the regular annual paid leave (vacation) is 20 working days per calendar year. For certain categories of employees (for instance occupational rehabilitated employees) the law provides for a higher length of the annual paid leave (26 working days) or additional paid leave. There is no limitation of maximum number of sick days. There are however special provisions with respect to procedures and authorities that may establish temporary or permanent incapacity.

## **11.3. Hiring and Firing Requirements**

### **11.3.1. Hiring of employees**

#### **11.3.1.1. Establishing an employment relation**

The employment relation is established through the concluding of a written employment agreement (please see p. 11.1.2. above).

Employment agreements may be concluded either for a fixed-term as an exception (only in the cases explicitly envisaged in the law) or for an unlimited-term as a general rule.

For example, the fixed-term employment agreement could be concluded for completion of particular work, for temporary replacement of an employee who is absent from work, etc. The fixed-term employment agreement could be concluded also for execution of casual, seasonal or short-term work and activities and the term of the agreement could not be longer than three years.

By way of exception, even if it is not a matter of casual, seasonal or short-term work, fixed-term employment agreement for a period of not less than one year may be concluded, and upon written request of the employee – for a period less than one year. However, such employment agreement may be concluded only once with the same employee for the same type of work.

#### 11.3.1.2. Probation period

The probation period should be no longer than six months. The probation period could be stipulated in favour of the employer, where the employer is entitled to terminate the labor agreement with immediate effect at any time during the probation period without owing compensation to the employee. Lacking such explicit statement, the probation period is considered stipulated in favour of both parties (i.e., each of the parties is entitled to terminate the labor agreement within the probation period and without giving prior written notice and giving a reason for the termination).

#### 11.3.1.3. Specifics

The employer and the employee are free to stipulate: (i) working from distance, (ii) mixed mode of work as well as (iii) transfer from working remotely to working at the employer's premises.

No mandatory requirement for employment of a minimum number of employees exists. Neither is there a requirement for nationals to hold particular positions in the company.

A requirement for a minimum number of nationals employed in the enterprise follows from the rule applicable to the proportion of national and non-national employees when it comes to hiring of third country nationals (please see p. 11.2.1. above).

#### 11.3.1.4. Non-employment relations

Persons, hired under management contracts as the managing director of the company (other members of managing or controlling bodies of a company) do not enjoy the rights and preferences of the employees under the Bulgarian Labor Code and therefore the specific regulation of the yearly paid and unpaid leaves, the redundancy protection, the specific grounds for termination of the agreement, etc., do not apply to the management contracts. Notwithstanding the fact that the company's managing director is made equal to the employees with respect to the tax and the social insurance effects of his engagement, the managing directors is not working under an employment relationship and can be freely dismissed at the discretion of the company's single owner.

#### 11.3.2. Termination of individual employment agreements

Several possible grounds for lawful termination of an employment contract are set out according to the Labor Code, as:

i) by mutual consent;

- ii) on expiry of the agreed term (applicable to fixed-term contracts);
- iii) with advance notice by the employee without a cause;
- (iv) termination by the employee without advance notice for different specific grounds (usually related to non-fulfilment of employer's obligations);
- iv) dismissal (with or without notice) by the employer due to the closure of the company, or part of it, reduction of volume of work, when the employee does not possess the required professional qualification, when an employee has been disqualified by a sentence or according to an administrative procedure from practicing a profession or occupying the position to which the employee has been appointed, etc.;
- v) termination upon the proposal of the employer with a minimum compensation of 4 (four) salaries (has to be accepted by the employee).

An unlawfully dismissed employee can claim in court indemnification and restoration to the previous job.

In case of unlawful termination, the employee is entitled to dispute the dismissal before the court without paying any fee and claim for:

- i) The dismissal to be pronounced unlawful and be revoked.
- ii) Reinstatement to the job position.
- iii) Compensation for the period of unemployment due to the dismissal (up to 6 months).
- iv) Correction of the grounds for the dismissal, as reflected in his work book.

#### 11.3.3. Redundancies and mass layoffs

There are procedures concerning redundancies and mass layoffs in the Labor Code. In case of mass layoffs, the employer must consult the trade union, the employee representatives and the Employment Agency and make efforts at least 45 days in advance to:

- i) Reach an agreement to avoid the mass layoff;
- ii) Reduce the number of employees affected;
- iii) Mitigate the consequences of the dismissals.

Before these consultations, the employer is required to provide employee representatives with information on the reasons for the layoffs, the number of employees to be dismissed, and so on. This information is also sent to the Employment Agency within 3 days as of providing the information on the mass dismissals to the employee's representatives. The law provides for that mass dismissals may be conducted not earlier than 30 days after provision of the information to the Employment Agency.

#### 11.3.4. Preservation of employment relations in case of reorganization of the employer

##### 11.3.4.1. Transfer of employment relations

The Bulgarian Labour Code stipulates that, in the event of a change of the employer within the hypothesis of transformation of entities, assignment or transfer of operations by one company to another, including the transfer of tangible assets, employment relations with workers and employees shall be retained, whereby the rights and obligations of the employer-transferor prior

to the change, which rights and obligations arise from the employment relations as at the change date, shall be transferred to the new employer-transferee.

As far as the obligations of the former employer towards the employees are concerned, which have arisen before the date of the change, the liability for such obligations is to be born jointly by the former and the new employer, according to the law.

#### 11.3.4.2. Automatic effect of the transfer

The effect of the transfer follows automatically by virtue of the law. Thus, it is not necessarily new employment contracts to be signed with workers and employees, since the currently existing employment contracts including all terms and conditions thereof are retained by virtue of the law.

Of course, if the new employer wishes to make amendments to the employment contracts, an annex amending the respective employment contract can be executed with each worker/employee upon mutual consent.

#### 11.3.4.3. Obligation for notification

Before the actual change is conducted, the law obliges the former and new employer to provide their respective workers and employees (in the case of the newly established subsidiary provided that there are any employees appointed) with information about:

- the contemplated change and the date of its realization;
- the reasons for the change;
- the possible legal, economic and social consequences for workers and employees resulting from such change;
- any measures foreseen with respect to workers and employees.

This information has to be presented at least 2 months prior to the contemplated restructuring.

Provided that there are no trade union organizations in the former employer and no employees' representatives are appointed, the notification has to be addressed to all persons concerned, i.e. practically all employees.

#### 11.3.4.4. Notification of the tax authorities

Within three days after the modification of the employment contracts, the new employer or a person authorised thereby is obligated to accordingly notify the relevant territorial directorate of the National Revenue Agency of the change. In case of change of employer, the deadline for submission of the notification is ten days.

### **11.4. Labor Availability**

On the Bulgarian labor market there is a relatively high percentage of skilled and high qualified specialists in different fields of economics. University degree of education is also relatively high.

The salary standards in most sectors in Bulgaria are in general lower than in other EU countries. Yet some spheres offer competitive even on international level remunerations considering the exceptionally high qualification of the specialists in the fields such as IT specialists, visual artists and engineers.

On the other spectre, the usually multilingual qualification of Bulgarian specialists (mostly fluently using the main EU languages) in different spheres has resulted in numerous multinational companies establishing in the country their service and so-called contact centres that offer customer support and sales services to countries throughout the world.

In addition, with the recent amendments in the Vocational Education and Training Act new opportunities are set for employers and employees for vocational training conducted by means of training through work (dual system of instruction). The dual system is a form of partnership between professional/secondary schools or colleges and one or more employers. The purpose of that legislative measure is in two aspects: on the one hand, to ensure better skilled and effective workers to benefit the employers and on the other hand, to ensure better working opportunities for the workers and employees.

### **11.5. Labor Permits**

Labor permits are required only for foreign nationals except for nationals of EU member states of nationals of a EEA member state and for other categories of foreign nationals (permanent residents, persons who have been granted refugee status etc.).

To employ a foreigner, an employer must prove there is no available Bulgarian or EU/EEA professional qualified for the job.

Permits for foreign nationals are issued by the Employment Agency after an application is filed by the employer accompanied with certain documents as listed in the law.

The basic requirements for obtaining a work permit for third country nationals are:

- i) to have a labor contract with Bulgarian employer;
- ii) the total number of foreigners working for the employer not exceeding 20 %, respectively 35 % of the average number of hired persons over the last 12 months (s. 11.1.2. above);
- iii) the employee must prove specialized knowledge, skills and professional experience necessary for the relevant position;
- (iv) the existing conditions of work and compensation are not less favourable than those for Bulgarian nationals for the respective category of labour.

Access is only permitted on an individual basis, to a particular individual, and for the place of work, position and duration of employment as stated in the labor permit issued by the competent authorities. Hiring third country nationals is admitted only for positions for which Bulgarian nationality is not required.

The competent state authority to grant a permit is the Executive Director of the Employment Agency within a term of 1 month from the filing of the application on granting an access to the labour market. The work permit is issued for a period of up to 1 year with the possibility of extending a total of up to 3 years for the executive and over 3 years for the managerial staff.

The work permit shall be grounds for obtaining an entry and residence permit from the competent authorities for the same period. Work permits for foreigners with long-term or permanent residence in the Republic of Bulgaria or equivalent to their rights through the right to shelter, recognized refugee status or humanitarian status shall not be required.

The procedure for obtaining a work permit (and residence permit) usually takes 2-3 months, depending on the particular ground for their issuance. The fee for issuance of work permit for one foreign national is BGN 400 (about EUR 200) not including additional expenses which may arise.

### **11.6. Safety Standards**

The safety standards are explicitly regulated in the Labor Code, in the Health and Safety Conditions at Work Act and in a number of secondary legislative acts, which beside the mandatory legal requirements provided for the existence in the enterprise and the compliance with particular internal rules and policies covering the main aspects of safety at work.

### **11.7. Unions**

The unions of employees and employers are recognized under Bulgarian law and existing in the practice.

Employees are entitled, with no prior permission, to freely form, by their own choice, trade union organizations; to join and leave them on a voluntary basis, showing consideration for their statutes only.

The aim and function of trade union organizations is to represent and protect employee's interests before state bodies and employers as regards the issues of industrial and social-security relations and living standards through collective bargaining, participation in tripartite co-operation, organization of strikes and other actions within the law.

Employers on the other hand are also entitled, with no prior permission, to freely form, by their own choice, organizations to represent and protect them, as well as to join and leave them on a voluntary basis, conforming only to their statutes.

The employers' organizations aim at representing and protecting employers' interests through collective bargaining, participation in tripartite co-operation, and through other actions within the law.

Trade union organizations and employers' organizations are entitled, within the limits of the law, to autonomously draw up and adopt their statutes and rules, to freely elect their bodies and representatives, to organize their leadership, as well as to adopt programs of action.

Trade union organizations and employers' organizations define their functions freely, and perform them pursuant to their statutes and the law.

The bodies of trade union organizations in the enterprise are entitled to participate in the drafting of all internal rules and regulations which pertain to industrial relations, and the employer is obliged to invite them to do so.

There is in general no political affiliation of trade unions.

The organization of unions is voluntary and employers are not obliged to organize such. Nevertheless, mandatory rules apply which guarantee the participation of employees and workers in the enterprise's management when the number of employed in the enterprise certain numbers. The employer is obliged to co-operate with the employees' representatives in the discharge of their functions and to create conditions for implementation of their activities.

Usually, the main mechanisms through which trade unions achieve their purposes are the collective bargaining, ensuring more favourable work conditions for the employees involved.

With respect to the above the individual employer, the group of employers, and their organizations are obliged:

- i) to negotiate with the employees' representatives for the conclusion of a collective agreement;
- ii) to make available to the employees' representatives:
  - the collective agreements concluded which bind the parties on the basis of industry, territorial or organizational affiliation;
  - timely, true and understandable information on their economic and financial position which is relevant to the conclusion of the collective agreement; provision of information whereof the disclosure could cause injury to the employer may be refused or granted subject to a requirement of confidentiality.

A particular specific represents the provision of the law according to which in case of transformation, re-organization or transfer of business the existing collective agreement remains valid with respect to the new employer until conclusion of a new collective agreement, but for not more than one year after the date of change of the employer.

## **XII. Tax On Corporations**

### **12.1. Allowances**

#### **12.1.1. Major allowances**

The taxable profit is the positive value, determined on the basis of the accrued financial result, which is established as a difference between the income and the expenses, not including the taxes on account of the profits, and adjusted in accordance with the provisions of Corporate Income Tax Act.

When establishing the taxable profit for tax purposes, depreciation allowances are determined in compatibility with the accounting depreciation quota. The depreciation amount is established for categories of assets by systematically applying the straight-line depreciation method.

For tax purposes the assets subject to depreciation are grouped into the following categories:

- i) I category - steady buildings, including investment properties, facilities, communication devices, electricity carriers, communication lines;
- ii) II category - machinery, manufacturing equipment and apparatus;
- iii) III category - transportation vehicles, excluding automobiles; surfacing of roads and runways;
- iv) IV category – computers, peripherals, software and right to use software, mobile phones;
- v) V category – automobiles;
- vi) VI category - taxable tangible and intangible assets for which a limited period of use is envisaged within a contractual or statutory obligation;
- vii) VII category - all other assets subject to depreciation.

For tax purposes for taxation of profits, the depreciation rates may not exceed the following:

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Category of Assets	Annual Depreciation Rates - %
I Category	4
II Category	30
III Category	10
IV Category	50
V Category	25
VI. Category	100/years of legal period. The annual rate shall not exceed 33 1/3
VII. Category	15

### 12.1.2. Major deductible items

Generally, expenses are deducted from the accounting result (shall be recognized for tax purposes) if they are related to the business activity of the entity and are duly supported by appropriate accounting document. For example, recognized for tax purposes are donations in extent up to 10 percent of the positive accounting result before its transformation for tax purposes, provided that some conditions are fulfilled and if the donation is made in favour of medical and healthcare institutions, social or integrated healthcare-social services for resident care in accordance with the Social Services Act, budget enterprises, specialized child institutions, persons with disabilities and other public institutions or persons, explicitly listed in the law. Deductible are also expenses for donations in extent up to 50 percent of the accounting profit if the donation is made in favor of the National Health Insurance Fund – for activities in relation to treatment of children, financed by the Ministry of Health and in favor of the Assisted Reproduction Fund Centre

The taxable persons are entitled to deduct part of the losses transferred from past years from their financial result of the current year, if it is positive. Deduction may be made within the next 5 consecutive years after the loss has incurred until the complete deduction of the loss.

Deductible is the profit from transactions with shares of public companies and tradable rights of assets in transactions carried out on a regulated Bulgarian market of securities, formed as a positive difference between the sale price and the documentary proven price of acquisition of the respective financial asset;

Deductible are also:

- i) the dividends received as a result of distribution of the profit among local persons and unregistered partnerships;
- ii) the tax acknowledged size of the expenses for depreciation for the current period and presented in the tax depreciation plan;
- iii) the negative differences originating from the acknowledgement of charged interest;
- iv) the levied expenses related to accumulating unused leaves and the calculated sums for obligatory public and health insurance related to them during the period of account, during which the leaves have actually been paid to the personnel etc.

### 12.1.3. Major expenses that are excluded from deductibility

The major expenses excluded from deductibility are:

- i) any non-business expenses;
- ii) any expenses which are not duly supported by documents;
- iii) any expenses on fines charged, forfeitures and other sanctions imposed for violation of normative acts, any default interest charged for late payment of public state or municipal debts;
- iv) any expenses which constitute hidden profit distribution as per the provisions of the CITA;
- v) some interest costs - interest costs are normally deductible on accrual basis, subject to the limitations provided in the Bulgarian thin capitalization rules. The latter apply to substantially all forms of financing, except for: 1) any interest payments on financial leases and bank loans, except where the parties to the transaction are related parties or the lease or the loan, as the case may be, is guaranteed or secured by or is extended on the order of a related party; 2) any penalty charges for late payments and damages; 3) any interest unrecognized for tax purposes on other grounds in Corporate Income Tax Act.

Under the thin capitalization rules, if the debt-equity ratio of the taxpayer does not exceed 3:1 as of the end of the respective calendar year the interest costs can be deducted for tax purposes in full.

## 12.2. Calculation of Taxes

The taxable base for the purposes of the corporate tax (10 %, applied in a uniform manner for all taxable persons, regardless of the economic sector and the legal form of the economic activities carried out) equals the tax profit, which the company has achieved during the respective tax period. By transformation of the accounting financial result a tax financial result should be formed where a positive tax financial result shall be a tax profit, i.e. the tax base for determination of corporate tax is the accounting financial result, adjusted for tax purposes. The adjustments are related to items that lead to increase of the financial result (for example non-deductible expenses) or items that are to be deducted from the financial result for tax purposes and therefore lead to decrease of the entities' financial result (for example incomes from dividends distributed by a BG tax resident entity or by a foreign entity that is tax resident in an EU/EEA Member State).

The tax base for determination of the final taxes levied at source (withholding taxes) depends on the type of the income and may equal the market value of the taxable interest income, the positive difference between the selling price and the documented acquisition price (for incomes accruing from transaction in financial assets and immovable property), the positive difference between the market value of the claim by the relevant shareholder and the documented acquisition costs for the shares (for liquidation quota), etc.

Recently, the Bulgarian government announced plans to introduce a 15% profit tax for large multinational companies that operate on the territory of the country, expected to happen from the beginning of 2024, according to the medium-term budget forecast of the Ministry of Finance. The additional levy is in line with the initiative of the OECD and the European Union for a minimum corporate tax on multinationals.

Subjected to this rate of tax will be companies with revenues over 800 million Euro in Bulgaria for the respective year, which are “multinational according to certain criteria”, most probably the big retailers and from the banking sector.

### **12.3. Capital Gains**

There are no regional taxes on capital gains, only national tax of 10% withheld at source for capital gains by non-resident legal entities (for resident entities capital gains should be included in the overall accounting financial result, subject to further adjustments for tax purposes).

The realized capital gains are included in corporate income and are taxed at the full corporate income tax rate (10% withholding tax).

Only certain types of income of foreign legal entities, originating from a source in Bulgaria, and subject to withholding tax, are treated as capital gains. This is the withholding tax levied on income deriving from transactions in financial assets (except for certain transaction explicitly listed in the law – for instance transactions in financial assets when traded on a regulated market or when concluded according to the procedure of repurchase or redemption by collective investment schemes admitted to public offering in BG or in another EU/EEA Member State or concluded according to the procedure of tender offering in BG or in another EU/EEA Member State, etc.) and on income from disposition of immovable property.

Corporations are not subject to municipal or local taxes on capital gains.

### **12.4. Filing and Payment Requirements**

Local corporations are obliged to submit their annual tax return in the respective territorial tax directorate of the National Revenue Agency no later than March 30 of the following tax year. When legally prescribed requirements are met, attached to the annual tax return should be filed also an annual activity report.

In case of winding up or transformation, the tax liable persons are to file a tax return for the tax due within 30 days of the date of entry of the dissolution in the Commercial register, respectively as of the entry off the transformation.

The corporate tax for the relevant year has to be paid no later than June 30 of the following calendar year, after deducting the amounts of the advance payments made on monthly and quarterly basis.

Taxable persons should make monthly (applicable for those, whose net value of sales for the previous year exceeds BGN 3 million) or quarterly (applicable for all others) prepayments of corporation tax based on a projected tax profit for the current year. Prepayments shall not be made by taxable persons whose net turnover for the preceding year does not exceed BGN 300,000, as well as by newly incorporated taxable persons, for the year of the incorporation thereof (some exceptions may apply).

Determination of the amount of the monthly and quarterly prepayments is subject to a specific formula provided for in the Corporate Income Tax Act.

### **12.5. Miscellaneous Taxes Due**

No tax on capital, nor apprenticeship tax or training tax apply under Bulgarian laws to corporations/legal entities.

No business license tax applies to corporation/legal entities either. Such tax is envisaged for natural persons only.

Other types of tax which are applied to corporations/legal entities include local taxes on acquired property and donations, withholding taxes on dividends and other incomes deriving from a source in Bulgaria, value added tax.

The filing and payment requirements vary depending on the type of the tax. For instance, for incomes on which withholding tax at source is levied the tax return should be submitted and the tax due should be remitted till the end of the month next succeeding the respective quarter in which the income has been charged or in which the decision on distribution of dividends has been taken.

## **12.6. Registration Duties**

### **12.6.1. Due upon incorporation of a company**

No other tax or duties arise upon the incorporation of a company itself different from the state registration fees which have to be paid upon incorporation of a new entity. Their amount depends on the type of company which is being established varying between BGN 50 (approximately EUR 27) and BGN 1,300 (approximately EUR 665).

### **12.6.2. Due upon an increase of capital**

A fixed fee for registration of the increase with the Commercial Register has to be paid in the amount of BGN 15-30 (approximately EUR 8-16).

### **12.6.3. Due upon transfer of the company's shares**

There are registration fees due which vary depending on the type of company the shares of which are subject to transfer.

### **12.6.4. Due upon transfer of corporate assets**

Tax duties arise in case of transfer of corporate assets depending on the structure of the transaction and the type of assets, which is being transferred. Besides the registration with the Commercial Register, which may be necessary depending on the type of the transferred assets (for example transfer of the commercial enterprise – going concern) the VAT Act envisages a compulsory VAT – registration for persons acquiring goods and services as result of non-cash contribution in consideration of a capital allotment in a commercial company, transfer of commercial enterprise or transformation of a commercial company. B

### **12.6.5. Other**

All significant changes in the legal status of a company have to be duly registered with the Commercial Register where the respective fee has to be paid.

## **12.7. Sales Tax or other Turnover Tax**

### **12.7.1. VAT**

Bulgaria applies value added tax (VAT) on sales. Generally, it is due for any supply of goods or services with place of delivery on the territory of the country.

The Value Added Tax Act in force (completely in compliance with the applicable European acts) regulates intra-community deliveries and acquisitions, supplies of goods and services between Bulgarian taxable persons, registration under VAT, documentation etc.

The VAT Act provides for mandatory and voluntary registration. Mandatory registration is applicable to persons with turnover of BGN 100,000 BGN or more for a period not exceeding twelve consecutive months.

Generally, a registered person is entitled to deduct from its tax liabilities credit for input tax in respect of goods or services received thereby in a taxable supply. This right applies in respect of goods or services supplied by suppliers that also VAT registered. When for certain tax period the total sum of the tax credit exceeds the total sum of the tax calculated by the registered person, the difference represents tax which should be refunded.

#### 12.7.2. Rates

There are three value added tax rates apply: zero rate (for certain supplies explicitly pointed out in the VAT Act), 9 per cent (applicable to accommodation provided in hotels and similar establishments, supply of books, newspapers, etc. – both electronically or in physical form – except for those, designated for advertisement purposes) and 20 per cent rate (the general rate).

#### 12.7.3. Filing and payment requirements

For every tax period, the registered person shall submit a VAT return where the supplies performed to and by the person are recorded. Generally, the tax period is fixed as one month in respect to all registered persons, except in cases provided for in the law. The registered person is obliged to remit the tax to the State budget (at the account of the competent National Revenue Agency territorial directorate) within the time limit for submission of the VAT return for the respective tax period.

### **12.8. Social Security and Welfare System Contributions**

The legal framework envisaging the main regulations applicable to social security and welfare system contributions is provided for in the Social Insurance Code and the Health Insurance Act as well as in numerous secondary legislative acts.

As a general rule, individuals and employers are subject to compulsory social insurance contributions due for insurance against common disease and maternity (3,5%), disability due to a common disease, old age or death (12,8%), industrial accidents and occupational diseases (0,4%), and unemployment (1%).

Social insurance contributions are calculated and due on the received (including charged in the accounts but unpaid) monthly remuneration, or on the monthly remunerations not charged in the accounts, however not less than the respective minimum contributory income as determined each year with the Public Social Insurance Budget Act and not exceeding the maximum monthly amount of the contributory income.

Employers are obliged to periodically provide to the National Revenue Agency data regarding the income, with respect to which social insurance contributions are due, the very social insurance contributions and the due tax under the Income Taxes on Natural Persons Act.

The social insurance contributions shall be remitted by the social insurance contributor (employer) on or before the 25<sup>th</sup> day of the month following the month when the work has been

performed. Social insurance contributions for persons working without entering into an employment relationship shall be remitted by the assignor (social insurance contributor) on or before the 25<sup>th</sup> day of each month succeeding the month when the remuneration has been paid.

### **12.9. Special Tax Schemes**

No special tax schemes are provided for under Bulgarian law.

### **12.10. Tax on Profits**

The only national (state) tax on profits is the corporate tax at the rate of 10% (please see p. 12.3. above). No regional or municipal tax on profits applies.

### **12.11. Tax Treaties**

Bulgaria has concluded 70 treaties for the avoidance of double taxation (covering 71 countries), including with most of the EU member states. The most significant include: USA; Germany, France, UK, Italy, The Netherlands, Spain, Switzerland, Luxembourg, Japan, China, Hungary, Finland, etc.

List with the treaties for the avoidance of double taxation may be accessed at following link: <https://nra.bg/wps/portal/nra/mezhdunarodni-deinosti/siddo/spisak-sas-spogodbi>

### **12.12. Territoriality Rules**

All resident legal entities are liable to taxes in respect of the profits and income realized from all sources inside and outside the Republic of Bulgaria.

Non-resident legal entities are liable to taxes for the profits realized through a permanent establishment in the Republic of Bulgaria or from disposition with property at any such permanent establishment, as well as for the income realized from a source inside the Republic of Bulgaria in cases explicitly laid down in the Corporate Income Tax Act.

### **12.13. Treatment of Tax Losses**

The loss shall be deducted consecutively during the following five tax years. The losses shall be deducted at determining the taxable profit up to the amount of the positive financial result before the tax loss is deducted. If the positive result of the following year is not sufficient, the remaining part of the losses shall be deducted during the next years following the same scheme.

Newly incurred tax losses are carried forward in the order in which they have been incurred, in the course of their incurrence. For each newly incurred loss the respective 5-year period starts at the beginning of the year next succeeding the year of incurrence of the loss.

### **12.14. Wealth Tax**

No wealth tax is applicable under Bulgarian law.

### **12.15. Withholding Taxes**

#### **12.15.1. Withholding tax on profits realized by a foreign corporation**

The withholding tax rate is 10 %. Foreign corporations are generally obliged only to withholding tax on incomes from:

- i) Interests, including also interests contained in the payments for financial leasing;
- ii) Royalties and license remunerations;

- iii) Remunerations for technical services;
- iv) Incomes use of chattels and immovable property, remunerations for contracts for exploitation leasing, franchising and factoring from sources in the Republic of Bulgaria.
- v) Remuneration under management contracts;
- vi) Remuneration received as members of managing and control bodies of Bulgarian legal entities.

CITA envisages for foreign legal persons, who are resident persons for tax purposes of an EU/EEA - Member State the possibility to opt for a recalculation of the withheld tax on some incomes explicitly listed in the law. Where such person opts for a recalculation, it shall be made in respect of all types of income as pointed above, realized thereby. The tax as recalculated shall be equal to the corporate tax which would have been due on such incomes if they were realized by a resident legal person, i.e. some costs associated with getting the income shall be taken into consideration. Where the tax withheld at source as remitted exceeds the amount of the tax as recalculated, the difference shall be refundable up to the amount of the tax withheld at source, which cannot be deducted from the tax due in the state where the person is considered resident for tax purposes.

#### 12.15.2. Withholding tax on dividends

Dividends paid by resident legal persons to non-resident legal persons (except where such dividends accrue through a permanent establishment in the country) are subject to a withholding tax of 5% (except dividends paid to legal persons who are resident for tax purposes in an EU member state or in another state which is a contracting party to the EEA agreement).

Dividends received are subject to corporate tax at 10% and the right to use foreign tax credit in respect of the tax imposed abroad on the gross amount of the income from dividends.

Dividends received from an EU/EEA tax resident are excluded from taxable income.

#### 12.15.3. Withholding tax on interest

Interest paid to foreign corporate shareholders is subject to 10% withholding tax, unless a double tax treaty or I+R Directive apply.

Interest on loans from affiliates can be deducted from a company's gross income for accountancy purposes, provided the interest payable does not exceed 75% (3:1 debt-to-equity ratio) of the company's gross income before all expenses and income from interests.

The interest in excess of this limit is deducted from the taxable profit during the next five years until they are depleted.

#### 12.15.4. Withholding tax on royalties

Royalties paid to foreign corporate shareholders are subject to 10% withholding tax, unless a double tax treaty or I+R Directive apply.

### **XIII. Tax on Individuals**

#### **13.1. Allowances**

According to the Income Taxes of Natural Person Act, for the purposes of taxation Taxable Persons are both "Resident natural persons" and "Non-resident natural persons".

As a “Resident natural person” regardless of nationality, is regarded any person who:

- i. has a permanent address in Bulgaria, or
- ii. is present within the territory of Bulgaria for a period exceeding 183 days in any twelve-month period, or
- iii. is sent abroad by the Bulgarian State, by bodies and/or organizations thereof, by Bulgarian enterprises, and the members of the family of any such person, or
- iv. whose centre of vital interests is situated in Bulgaria.

The Resident natural persons (RNP) are taxable for income acquired thereby from sources inside and outside Bulgaria, where the “Non-resident natural persons” are taxable for income acquired only from sources inside Bulgaria

Foreign nationals staying in Bulgaria, solely with the purpose of studies or medical treatment, and the foreign experts are taxable for their income from sources in Bulgaria regardless of the term of stay.

When a person – foreign citizen, staying in Bulgaria solely for the purpose of studies or medical treatment, acquires a status of permanent resident or extends the period of his stay upon conclusion of the medical treatment or education, such person is to be considered local person from the day of acquiring the status of permanent resident, respectively from the date of extension of the term of temporary stay.

A final tax is levied on the following income from a source inside Bulgaria, charged/paid in favour of any non-resident natural person, where not realized through a fixed base within the country:

- i. any compensations for lost profit and damages of such nature;
- ii. any scholarships for study in Bulgaria and abroad;
- iii. any interest payments, including interest within payments under a lease contract except for interest on bonds or other debt securities, issued by the state or municipalities and admitted to trade in a regulated market in Bulgaria or a European Union Member State, or another country which is party to the Agreement on the European Economic Area;
- iv. any income from rent or from other onerous provision for use of movable or immovable property, including any payments under a lease contract which does not expressly provide for transfer of the right of ownership to the property;
- v. any payments received under franchising agreements and factoring contracts;
- vi. any copyright and license royalties;
- vii. any technical assistance fees;
- viii. any remunerations for activity performed within the territory of the country by non-resident natural persons who are public figures, or such active in science, art, culture and sports, including where the income has been paid/charged through a third party, such as a performer-management agency, a production company and other intermediaries;
- ix. any income from management and control, from participation in management and supervisory bodies of enterprises;
- x. any income from sale, exchange or other onerous transfer of immovable property;

- xi. any payments under a lease contract which expressly provides for transfer of the right of ownership to immovable property;
- xii. any income from sale, exchange or other onerous transfer of shares, interests, compensation instruments, investment vouchers and other financial assets.

### **13.2. Calculation of Taxes**

The taxable income and the taxable amount shall be determined for each source of income separately depending in the specifics of the source of income and according to the respective rules provided in the law

### **13.3. Capital Gains Tax**

Any income subject to levy of final taxes according to the procedure established by the Income Taxes of Natural Persons Act or of final taxes according to the procedure established by the Corporate Income Tax Act, as well as any income subject to levy of a license tax/or tax on passenger taxi transportation, according to the procedure established by the Local Taxes and Fees Act, shall be excluded upon determination of the taxable income.

### **13.4. Filing and Payment Requirements**

The annual tax return shall be submitted before or on the 30th of April at latest of the year next succeeding the year of acquisition of the income. Since 2015, when submitting the annual tax return on or before the 31<sup>st</sup> of March of the next succeeding year by electronic means, the person shall enjoy a rate rebate of 5 per cent of the balance of tax due under the annual tax return, provided that the said person does not incur any public obligations subject to coercive enforcement by the time of submission of the return

Both Resident and Non-resident natural persons may be obliged to submit annual tax report on various grounds, specified in the applicable law. The persons who carry out economic activity in a merchant capacity within the meaning given by the Commerce Act, including any sole entrepreneurs, shall present an annual financial statement, including the notes thereon, together with the annual tax return.

The enterprises and the self-insured persons, that are payers of income and that have withheld the final tax on income charged/paid to non-resident persons, shall declare the said circumstances by a tax return completed in a standard form.

Such tax return shall be submitted by the person who has acquired the income where the payer of the income is not obligated to withhold and remit the tax.

The tax return shall state particulars of the payer of the income, irrespective of who has submitted the return.

Such tax return shall be submitted not later than the end of the month next succeeding the quarter for remittance of the tax.

As far as the payments of tax due on the income from employment or assignment relations are concerned, in general the tax has to be withheld and paid directly by the employers and the assignor simultaneously with the drawing or the bank transfer of the sums for salaries and/or other remuneration from the bank account of the employer/assignor, and for cash payments - by the 10th day of the next month. The advance payment has to be determined and paid on monthly

basis, but not later than on the 25<sup>th</sup> day of the month next succeeding the month in which the tax was withheld.

Where the payer of the income is not obligated to withhold and remit the tax, the tax shall be remitted by the person who has acquired the income, on or before the 25<sup>th</sup> day of the month next succeeding the quarter of acquisition of the income.

### **13.5. Inheritance and Gift Tax**

#### **13.5.1. Inheritance tax**

Tax on inheritance shall be levied on inherited properties – either by virtue of law or by virtue of a will - in the country or abroad that belong to Bulgarian nationals and on the properties in the country that belong to foreign citizens.

The properties of individuals without nationality, their permanent residence is in the territory of the country, shall be levied as properties of Bulgarian nationals.

Subject to levying with tax are the movable and immovable property of the ancestor and the rights on any such property, as well as the ancestor's other property rights, receivables and obligations at the time of the opening of the succession, save as otherwise explicitly provided by law.

Inheritance tax shall furthermore be levied on any property devolving directly on a third party in the event of death of the ancestor pursuant to a contract concluded by the ancestor.

Inheritance tax shall not be paid by the surviving spouse and by the lineal heirs without limitation.

13.5.2. Gift / donation tax shall be levied on any properties acquired by donation, as well as on any onerously acquired immovable, limited rights in rem thereto, and motor vehicles.

Any property acquired gratuitously in any manner other than by donation as well as any liabilities extinguished by remission are also subject to tax. Donation tax shall be levied also by gratuitous acquisition of real estate or limited real estate rights by prescription. Where the transferee of the property is abroad, the transferor shall be liable for the payment of tax.

No tax shall be levied on any properties acquired by donation between lineal relatives and between spouses.

#### **13.5.3. Rates**

*Inheritance tax:* The rate of the inheritance tax is determined by the respective the Municipal Council separately with respect to each heir or legatee, as follows:

- i. applicable to siblings and children of siblings: from 0,4 to 0,8 per cent per portion in excess of BGN 250,000;
- ii. applicable to any persons other than the above: from 3,3 to 6.6 per cent per portion in excess of BGN 250,000.

Allowances are available under particular terms and conditions.

*Gift / donation tax:* Upon donation of property, the tax shall be charged on the assessed value of the transferred property in an amount determined by the respective local Municipal Council by an ordinance as follows:

- i. from 0.4 to 0.8 per cent: applicable to donations between siblings and their children;
- ii. from 3.3 to 6.6 per cent: applicable to donations between persons other than the above.

#### 13.5.4. Payment and filing requirements

*Inheritance tax:* At the opening of inheritance the tax obliged persons or their legal representatives shall submit within 6 months a declaration with the territorial tax directorate at the last residence of the grantor and if the latter has had residence abroad – at the location of the greater part of his property in the country.

The tax has to be paid in 2 months term after receiving the announcement.

*Gift/donation tax:* The tax has to be paid within 2 months term after receiving the announcement.

### **13.6. Miscellaneous Taxes Due**

#### 13.6.1. There are different local taxes which exist collected by Municipalities:

- i. tax on immovable property;
- ii. inheritance tax;
- iii. transport vehicles tax;
- iv. gift tax;
- v. tax on onerous acquisition of property;
- vi. license tax;
- vii. visitor tax;

#### 13.6.2. Local fees are due for:

- i. household waste;
- ii. use of markets, market place, fairs, pavements, squares, street lanes;
- iii. use of kindergartens, camps, hostels, social care homes and other forms of social services;
- iv. technical services;
- v. administrative services;
- vi. raising of dogs;
- vii. buying out grave places;
- viii. raising and upbringing activities in the compulsory pre-school education to be used by the kindergarten or the school beyond the activities financed by the state;
- ix. general support activities within the meaning of the Pre-school and School Education Act, which are not financed from the state budget and which are carried out by personality development support centres.

#### 13.6.3. Filing and payment requirements

The tax on the immovable properties is paid in two equal parts in the following periods: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due. To those who pay in advance for the whole year within the first term receive a discount of 5%.

Owners of the vehicles have to declare to the territorial tax directorate at the place of their permanent address, respectively headquarters, the vehicles owned by them in one month term after acquiring. The tax shall be paid in two equal parts in the following terms: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due. To those who pay in advance for the whole year within the first term receive a discount of 5%. For vehicles acquired during the current year the tax is paid in one month term after the date of acquisition in extent of 1/12 of the annual tax for each month till the end of the year, including the month of acquisition.

The rest of the above taxes shall be payable according to a procedure established by the respective Municipal Council.

### **13.7. Real Estate / Habitation Tax**

The amount depends on the location, nature and designation of the property. The tax shall be paid in two equal parts in the following terms: until 30<sup>th</sup> of June and until 31<sup>st</sup> of October of the year for which it is due.

### **13.8. Sales Tax**

The VAT regime applies to individuals as well as described under p. 12.7. above.

### **13.9. Social Security and Welfare System Contributions**

The social security and welfare system contributions apply to individuals as well as described under p. 12.8. above.

The social and health security payments for the state public insurance that are for the account of the insurers are paid simultaneously with the payment of the due remuneration or part of it. The insurance payments for the self-insuring are paid personally or through insurance funds till the 25th date of the month following the one they are due for.

### **13.10. Stock Option, Profit Sharing and Savings Plans**

The other generally regulated tax regimes (see entire section XIII) may apply depending on the particular terms and conditions agreed with respect to the stock option, profit sharing and savings plans.

### **13.11. Taxation of Benefits in Kind**

The taxable income from legal terms of employment and from the legal relations equalized with them includes all payment, including awards in cash and/or in kind by the employer or for the account of the employer, received by the taxable persons for the calendar month.

Excluded from taxation under particular terms and conditions are:

- i) the value of free of charge protective food, antidotes and personal protective means according to the Labor Code and other laws as well as the value of the free of charge food for the staff on duty implementing 12 hours' shifts at the health establishments, of the operation teams and of the teams for collecting of blood.
- ii) the cost of the special working clothes, the free working and uniform clothing provided according to the Labor Code and other laws, of the representative and uniform clothes provided for the civil servants and for other persons for whom the law provides the right of receiving such clothes;

- iii) business trip money; compensations for moving;
- iv) some compensations;
- v) the cost of the transport fares from the place of residence to the place of work, provided free by the employer;
- vi) the social expenses for the account of the employer;
- vii) the remuneration for temporary working incapacity;
- viii) some awards under the Law for the Defense and the Armed Forces of the Republic of Bulgaria;
- ix) the general supplies and accoutrements ensured in pursuance of the Ministry of Interior Act, the Republic of Bulgaria Defense and Armed Forces Act, and the State Agency for National Security Act;
- x) any additional food expenses which are paid *in lieu* of *per diem* expenses to factory and office workers in road transport and rail transport, in dining cars, in mobile post offices, in mobile security protection and in other such activities whereat the work duties are performed during travel to another nucleated settlement or facility: up to the double amount of the minimum amount of such additional expenses as fixed in a statutory instrument;
- xi) the lump-sum allowances for medical treatment, provided by the employer for the account of the expenses on fringe benefits: up to the value of the treatment;
- xii) the value of the lump-sum allowances provided by the employer for the account of the expenses on fringe benefits upon: child birth, contracting of civil marriage or death of a member of the family: not exceeding, in aggregate, BGN 2,400;
- xiii) the expenses on fringe benefits incurred by the employer of up to BGN 60 monthly for each insured person on payments/premiums for supplementary voluntary social insurance, voluntary health insurance and/or life assurance, as reported by the enterprises and the representative offices, regardless of whether they carry out economic activity;
- xiv) the expenses incurred by the employer on any commercial insurances defined as compulsory by a statutory instrument;
- xv) the cash prizes and merchandise awards received in pursuance of and according to the procedure established by a statutory instrument etc.
- xvi) the monetary ration allowance paid according to the law.

### **13.12. Taxes on Dividends**

Dividends regardless of their form and liquidation shares distributed by local legal entities to individuals are subject to a 5% withholding tax.

Exempt from this tax are foreign legal persons who are residents in an EU member state or a state from the European Economic Area. The taxable amount for assessment of the tax withheld at source on any income accruing from dividends is the gross amount of the dividends distributed.

Any payers of income withholding the tax at source is obligated to remit the taxes due not later than the end of the month next succeeding the quarter during which a decision was made on distribution of dividends or of shares in a liquidation surplus

### **13.13. Tax on Income**

National tax of 10% applies on the income of resident and non-resident individuals. National tax of 15% applies on the income from economic activity in a sole-entrepreneur capacity.

The tax on income is applied on national level and no regional tax apply.

### **13.14. Tax Treaties**

Please see Section XII, point 12.11.

### **13.15. Territoriality Rules**

Local natural persons are taxable for their income originating from sources in the country and abroad.

Foreign natural persons are taxable for their income originating from sources in Bulgaria. Foreign citizens residing on the territory of Bulgaria with the purpose of receiving education or medical treatment, as well as foreign experts, are liable for tax on income originating from sources in Bulgaria, regardless of the duration of their stay. Whenever a natural person who is a foreign national residing in Bulgaria with the sole purpose of receiving education or medical treatment, receives permanent residence status or extends their stay after the education or medical treatment is completed, they are considered local natural persons from the day the permanent residence status has been obtained or the day of extending their temporary stay.

Individuals are subject to tax on their worldwide income.

### **13.16. Wealth Tax**

Currently, no wealth tax is applicable under Bulgarian law.

### **13.17. Withholding Tax**

Salary is subject to withholding taxes at the source. Taxes are paid by the corresponding employer before the transfer of the salary to the employee takes place.

Subject to withholding tax are also the dividends paid out by local entities to natural persons.

## **XIV. Tax on Other Legal Bodies**

The non-profit legal entities, legal entities regulated under special laws (for example law firms), as well as non-personalized legal entities are subject to taxation with corporate tax for their profit from commercial transactions, as well as from the leasing of movable assets and immovable property.

When relevant the rules of corporate taxation apply to all such other legal bodies accordingly – please see Section XII above.

There are specifics which apply when it comes to VAT with respect to non-personalized legal entities where the contributions of the partners for their common undertaking are not considered as VAT-taxable deliveries.

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Also depending on the type of activity (for example in the field of sports or healthcare) certain deliveries performed by non-profit legal entities may be considered VAT exempt.

**14.1. Allowances**

Please see Section XII, point 12.1.

**14.2. Calculation of Taxes**

Please see Section XII, point 12.2.

**14.3. Capital Gains**

Please see Section XII, point 12.3.

**14.4. Filing and Payment Requirements**

Please see Section XII, point 12.4.

**14.5. Miscellaneous Taxes**

Please see Section XII, point 12.5.

**14.6. Registration Duties**

Please see Section XII, point 12.6.

**14.7. Sales Tax or other Turnover Tax**

Please see Section XII, point 12.7.

**14.8. Social Security and Welfare System Contributions**

Please see Section XII, point 12.8.

**14.9. Special Tax Themes**

Please see Section XII, point 12.9.

**14.10. Tax on Profits**

Please see Section XII, point 12.10.

**14.11. Tax Treaties**

Please see Section XII, point 12.11.

**14.12. Territoriality Rules**

Please see Section XII, point 12.12.

**14.13. Treatment of Tax Losses**

Please see Section XII, point 12.13.

**14.14. Wealth Tax**

Please see Section XII, point 12.14.

**14.15. Withholding Taxes**

Please see Section XII, point 12.15.

## **XV. General Tax Considerations**

Bulgaria applies a worldwide income tax system and residents are taxable on their worldwide income. Bulgarian companies are subject to a flat tax rate of 10% and the taxable profit is the annual financial result adjusted for tax purposes. Bulgaria also levies a flat personal income tax rate of 10%.

However, it is expected from the beginning of 2024 a flat tax rate of 15 % profit tax to be introduced for large multinational companies that operate (is in line with the initiative of the OECD and the European Union for a minimum corporate tax on multinationals).

Subjected to this tax rate will be companies with revenues over 800 million Euro in Bulgaria for the respective year, which are “multinational according to certain criteria” - most probably will apply for the big retailers and some of the multinational banks operating in the country.

Offered is a low-cost business environment including low rental prices and relatively low salaries for the European area (average net salary of approx. EUR 1,000/month), while the country has a very well-developed Internet infrastructure which offers excellent opportunities for outsourcing of activities to a Bulgarian subsidiary. The EU Parent-Subsidiary Directive enables the parent company to repatriate the low-taxed profits in a tax-efficient way.

A number of EU countries offer an attractive IP holding regime; however they levy relatively high corporate income taxes on pure trading income. EU countries such as Malta and Cyprus levy low corporate income taxes on trading income but have an island image. Bulgaria is a good alternative within the EU offering a flat corporate income tax rate of only 10% applicable to all types of income. A Bulgarian company can function as a subsidiary of a non-EU parent company. As such, one achieves a minimum tax leakage in Europe (10% corporate tax and 5% withholding tax) and a tax-efficient repatriation of the profits.

Main taxes that potentially apply to a business vehicle subject to tax in Bulgaria

Tax resident business vehicles pay tax on their worldwide income, including:

- Corporate tax on profits at 10%.
- Tax on certain expenses (such as business-related expenses or social expenses in kind provided to employees) at 10%.
- Value added tax (VAT) at a standard rate of 20%. The applicable rate of tax is 9% for providing accommodation at hotels, similar establishments, holiday accommodation (including at camping sites or caravan sites; sale of books, including textbooks, newspapers, etc.).

## **XVI. Immigration Requirements**

### **16.1. Immigration Control**

There are no immigration quotas applicable under Bulgarian legislation.

No mandatory vaccinations are required.

A medical certificate is required with a minimum coverage of EUR 30, 000 (approx. BGN 60,000). In practice usually the following risks are being covered by the private insurance –

medical expenses, resulting from an accident and/or an acute disease; repatriation, resulting from an accident and/or an acute disease; emergency dental care; death, resulting from an accident.

Generally, all foreigners should dispose of at least a regular travel document (i.e. passport or another equivalent document) and visa (serving as entry permit) in order to enter the territory of Bulgaria. This requirement, however, does not apply to: citizens of countries being parties to the international treaties on visa exemption regimes concluded by Bulgaria (e.g. USA, Mexico, Monaco, etc.); citizens of the EU, Iceland, Liechtenstein and Norway; and holders of Schengen visas – for all these citizens a valid identification document is sufficient to entitle them to enter and leave the territory of Bulgaria and stay for a period up to three months in any six-month period from the date of the first entry.

The visa itself serves as entry permit and entitles its holder to lawfully reside in the country for a certain period of time depending on the type of visa issued.

No exit permits are required. No re-entry permit is required either within the validity period of the visa.

## **16.2. Immigration Requirements / Formalities**

16.2.1. Foreigners willing to stay in Bulgaria on a continued or permanent basis (i.e. more than six months) before being eligible to apply for residence permit should first obtain a visa type “D”. In this respect, third country nationals, who are not citizens of EU Member States or of a state - party to the EEA (EU + Iceland, Liechtenstein and Norway), or of the Confederation of Switzerland, are subjected to far more restrictive regime in terms of getting a residence permit in comparison to those who are (e.g. prior obtaining of visa “D”, adducing criminal record certificates, etc.).

16.2.2. Three types of residence permits/statuses are available to third country nationals:

- i) Continued with an authorized term for residence of up to 1 year and option for renewals (with some exceptions, like the cases of issue of EU Blue cards and Unified Work and Residence Permit, where the initially permitted residence could be up to 5, respectively 3 years);
- ii) Long-term with an authorized term for residence of up to 5 years and option for renewals and
- iii) Permanent (for an indefinite term of residence).

16.2.3. Citizens of the EU, EAA or Switzerland may be granted with two types of residence permit being:

- i) Continued with an authorized term for residence of up to 5 years and option for renewals and
- ii) Permanent for an indefinite term of residence.

16.2.4. All these residences could be issued on the specific legal grounds explicitly provided for in the specialized legislation.

16.2.5. Even if the investor plans to reside permanently on the territory of Bulgaria, the investor is allowed to enter the country on the grounds of a valid visa. The procedure for application and obtaining of a residence permit can be initiated before or after entering the country.

16.2.6. The information to be supplied to the competent immigration authorities within the procedure for obtaining a residence permit depends on the nationality of the respective

applicant. For instance, applicants who are citizens of EU Member States are required to comply with much less formalities in order to obtain residence. Generally, they are supposed to provide the immigration authorities with the following documents/information (not exhaustively enlisted):

- i) Standard application form;
- ii) Copy of a valid passport or another equivalent document;
- iii) Evidence of available accommodation (e.g. lease agreement, title deed).

16.2.7. The process of issuance of a residence permit to third country nationals is much stricter. Generally, such individuals are required to provide the immigration authorities with:

- i) Regular travel document (i.e. passport or another equivalent document);
- ii) Valid visa “D”;
- iii) Evidence of available accommodation (e.g. lease agreement, title deed) or document evidencing the applicant has sufficient funds to sustain existence (e.g. excerpt from bank account);
- iv) Criminal record certificate;
- v) Medical certificate;
- vi) evidence for the legal ground which makes the applicant eligible to apply for issuance of residence permit (e.g. labor permit, certificate demonstrating executed investment, certificate demonstrating the applicant has been admitted to full-time university course, etc.) as far as the residence permit could be obtained in strictly limited hypothesis.

Upon issuance of the residence permit the visa “D” is automatically annulled.

16.2.8. In summary, the immigration procedure concerning third country nationals is divided into the following three main stages: a) legal ground (respective document) which makes the applicant eligible to apply for issuance of residence permit; b) obtaining of visa “D”; c) applying for the issuance of the residence permit and receipt of the latter.

16.2.9. The residence certificates issued to citizens of EU Member States, or of a state – party to the EEA, or of the Confederation of Switzerland are to be issued immediately with the filing the application.

The residence certificate issued to third country nationals, typically, takes between 1-4 months depending on the type of residence for which the foreigner candidates for.

### **16.3. Visas**

16.3.1. All foreigners are expected to have at least a valid passport and visa in order to entry and reside in Bulgaria subject to the exceptions as referred to in 16.1. above.

The validity of the visa depends on the type of visa issued:

- i) Airport transit visa “A” for single-entry, double-entry or, as an exception is issued with a validity term of three months from the date of its issuance. Generally, the holder of such visa is entitled to cross or stay in the international transit zone of the airport in the case of a transit landing or of changing flights for the purposes of traveling to another state.

A foreigner travelling on an air transit visa is, in principle, considered as unadmitted to the territory of the Bulgaria and not entitled to leave the transit rooms.

ii) Transit visa “C” is issued for the purposes of transit through the territory of Bulgaria and allows the foreigner for one, two, or, as an exception – three transit passages each for a term of two days and could be issued with a validity term of up to twelve months.

iii) Visa “C” for the purposes of planned stay is typically issued for touristic or other purposes (e.g. business trip) allowing the foreigner to enter in Bulgaria once, twice or multiple times for a maximum term of 90 days within each 180-day period as of the date of the first entry. The multiple short-stay visa could be with a validity term of up to twelve months or, as an exception – up to five years;

iv) Visa “D” for long-term residence is issued to foreigners willing to reside in Bulgarian on a long-term or permanent basis. Its validity is limited to a term of up to six months and entitles for residence of up to 180 days. Furthermore, such visa with a validity term of up to one year and entitling for residence of up to 360 days could be issued to foreigners conducting scientific research or students under 1 year education programs, scholars or trainees, foreigners on international secondment, etc. Such visa could be obtained in strictly limited hypothesis.

16.3.2. Investors apply for a visa before the respective Bulgarian diplomatic office. These offices usually operate via an appointment system and appointments need to be booked at least 2 weeks in advance.

16.3.3. The documentation and information required to be provided varies depending on the type of visa for which the candidate applies.

Generally, the documentation / information required could be summarized to the following (but not exhaustively enlisted for some particular cases):

- vii) Formal application;
- ii) Valid passport (expiry date need to run out at least three months after the intended date of departure from Bulgaria; contains at least two empty pages; issued within the previous 10 years);
- iii) Photocopied pages of the passport which includes personal data and visas;
- iv) Passport size photo;
- v) Biometric data collection – ten fingerprints;
- vi) Document proving the purposes of the travel (e.g. tourist visit, business invitation, etc.);
- vii) Evidence of available accommodation (e.g. lease agreement, title deed, hotel reservation) or document evidencing the applicant has sufficient funds to sustain existence (not applicable in some cases);
- viii) Medical certificate (except when applying for visa “A”).

Usually, the response (decision) on application for issuance of visa “A” or visa ”C” is delivered within 15 calendar days. The response (decision) on application for issuance of visa of visa “D” takes a bit longer - 35 working days (with some exceptions).

16.3.4. The costs related to the issuance of visas are as follows:

i) Visa “A” and visa “C” (for a short stay for the purposes of transit or a planned stay) – EUR 60 and EUR 120 (in case the application is filed within three business days before the planned traveling date), relevant discounts are applicable for children;

ii) Visa “D” – EUR 100 for visa with a validity term of up to six months and entitlement to reside of up to 180 days and EUR 200 for visa with a validity term of up to one year and entitlement to reside of up to 360 days.

Depending on the bilateral agreements between Bulgaria and other countries, the above fees might be different.

## **XVII. Expatriate Employees**

### **17.1. Cost of Living**

According to data published by the National Statistical Institute, the average monthly salary for the second quarter of 2023 is BGN 1,957, with the main source of income being wages or salaries. Other sources of income include, inter alia, entrepreneurship, property rental, pensions and the sale of property.

Average monthly spending is BGN 4 749.87 per household and BGN 2 379.38 per person.

Some food products, beverages and cigarettes in Bulgaria are still relatively cheaper than those in other EU/EEA Member States, which is an added advantage and makes the cost of living more affordable.

### **17.2. Drivers' Licenses**

17.2.1. Generally, a driving license issued in another country could be recognized on the territory of Bulgaria, subject to the presence of one of the conditions below, and if so, the foreign driving license should be replaced by a Bulgarian one, following a formal legal procedure.

A driving license could be recognized, if issued by:

- a member state of the European Union, Iceland, Liechtenstein, Norway, or the Swiss Confederation
- a country - contracting party to the Convention on road traffic, where the certificate should meet the requirements of Annex No. 6 to the Convention
- a country - contracting party to the Convention on Road Traffic, which country has also signed an agreement with the Republic of Bulgaria on mutual recognition and reissuance of motor vehicle driving licenses

The foreign certificate submitted for replacement must be valid license. A foreign driving license shall not be recognized in Bulgaria, if it is restricted, temporarily revoked or revoked on the territory of another EU member state, as well as in the event that the license is canceled in another EU member state.

17.2.2. Furthermore, foreigners residing on a continued or long-term basis on the territory of Bulgaria are allowed to drive motor vehicles on the territory of the country with a license not

issued by a EU Member State, or of a state - party to the EEA, or of the Confederation of Switzerland, for a period up to one year from their Bulgarian residence permit issue.

17.2.3. The applicant must:

- meet the requirements provided for in the legislation for the issuance of a motor vehicle driving license
- have a Bulgarian identity document
- have habitual residence in Bulgaria
- not have another valid vehicle driving license issued by an EU member state
- not have imposed restrictions or temporary deprivation of the right to drive motor vehicles on the territory of a member state
- not be in a procedure for replacing his/her license in another Member State

17.2.4. If the foreign driving license does not comply with the requirements of the laws both practical and written examinations are required in order for a new driving license to be obtained which complies with the mandatory requirements of Bulgarian laws.

17.2.5. The fees involved

- i) For individuals under the age of 58: standard procedure (30 calendar days) - BGN 25; fast track procedure (10 calendar days) – BGN 50;
- ii) For individuals between the age of 58-70: standard procedure (30 calendar days) – BGN 11; fast track procedure (10 calendar days) – BGN 22;
- iii) For individuals above the age of 70 – free of charge.
- iv) For persons with particular disabilities – BGN 3

### **17.3. Education**

Both types private and state/municipalities owned schools & universities are available to foreign investors and their families. There are no unified tariffs and/or maximum/minimum thresholds of the fees involved which vary depending on the education level, specific school and education program. The requirements for enrollment also vary depending on the type of the school (incl. educational level) or university and education program.

### **17.4. Housing**

Different possibilities for renting and buying living premises are available to foreign investors.

Generally, all citizens of the EU member states, Norway, Iceland and Liechtenstein can acquire (either as individuals or through legal entities) ownership of real estate (e.g. house, apartment, residential building) and regulated land. Since January 1<sup>st</sup> 2014 such citizens are also permitted to acquire agricultural land under the terms and conditions regulated by the law, thus having in practice the same rights as the Bulgarian citizens.

Non-EU citizens (and also non-EEA citizens) are allowed to acquire and own as individuals only buildings or premises thereto and limited real rights over real estates. Such foreigners can acquire ownership over regulated land plots only under the terms of an international agreement ratified under the terms of Article 22 (2) of the Constitution of the Republic of Bulgaria which

has been promulgated and entered into force. In practice, ownership over such real estate property can be acquired indirectly through a legal entity established in Bulgaria. Ownership over agricultural land or forests cannot be acquired by non-EU citizens or non-EEA citizens.

In event where the investor decides to reside on the territory of Bulgaria on a long-term basis the housing conditions need to be ensured in advance. Usually in practice this is ensured by virtue of a concluded lease agreement. Properties may be rented on a fully, partially or unfurnished basis. It is also possible to rent a room in a property where the tenant will live alongside the property owners. Property rentals are most expensive in Sofia and other big cities such as Varna and Plovdiv. In most cases, the rent is payable on a monthly basis. Usually, utility bills (water, electricity and heating) are not included in the rental price and are payable by the tenant on a regular basis.

The costs of renting accommodation or purchasing a property vary within a large range depending on the area, the location within a certain area or the condition of the accommodation/property. The average property purchase prices also vary a lot depending on the towns, residential area, etc., where again those in Sofia, Plovdiv, Varna and Burgas are the highest ones.

### **17.5. Importing Personal Possessions**

Local and foreign individuals are able to import unlimited quantity of BGN and foreign currency in cash declaring before the customs authorities the amount of the imported funds, their owner, the type of the currency, the origin of the funds and their purpose if the total sum is above EURO 10,000. Domestic and foreign natural persons may export and import precious metals and gemstones and items made with and from them after declaring such valuables to customs in a manner established by the Minister of Finance. The export and import of precious metals and gemstones and items made with and from them through mail is prohibited, with the exception of postal packages of declared value.

The EU customs regulations apply.

Import duties may be payable depending on the type of transferred goods and possessions.

### **17.6. Medical Care**

17.6.1. The healthcare system in Bulgaria is organized and managed by the Ministry of Health. The contributions to the healthcare system are managed by National Health Insurance Fund (NHIF). Healthcare contributions are paid by all persons working under the terms of employment contracts and self-employed persons and are deducted from the monthly remuneration paid by employers (for persons working under the terms of employment contracts), along with other payable social insurance contributions. Self-employed persons pay their healthcare contributions themselves.

Insured persons are entitled to use the services of medical professionals and healthcare facilities who/which have concluded a contract with the National Health Insurance Fund.

Outpatient care (excluding emergency care) services are provided by natural or legal persons on the basis of concluded contracts with the National Health Insurance Fund. All insured persons choose a general practitioner (GP) with whom they may consult as necessary. If the GP selected is not a specialist who has the necessary competence to treat a certain condition, the patient

obtains a medical referral to be examined by a specialist licensed by the National Health Insurance Fund.

Uninsured persons pay the service fee and the full amount of the medical care received.

There are many specialized private surgeries and clinics in Bulgaria. In the case of consultations and/or treatment in such surgeries/clinics, patients pay for the respective examination and/or treatment, regardless of whether they have medical insurance or not. More information about health insurance and the conditions for using healthcare services in Bulgaria is available from the websites of the Ministry of Health and the National Health Insurance Fund.

When in need of emergency medical care call the national emergency number 112.

17.6.2. Obligatory health insured by the National Health Insurance Fund beside the Bulgarian citizens are:

- i) all foreign citizens or stateless persons who have been permitted long-term residence in the Republic of Bulgaria, save as otherwise provided by an international treaty whereto the Republic of Bulgaria is a party;
  - ii) all persons who have been recognized refugee status or humanitarian status or who has been afforded a right of asylum (in Bulgaria);
  - iii) persons to whom provisional protection have been granted (with some additional specifics applicable hereto)
  - iv) foreign citizens who have been issued a residence and work permit of the "European Union Blue Card" type
  - v) foreign students and PhD fellows in Bulgarian universities and scientific institutes.
- iv) persons other than such referred to in Items 1 to 5, in respect of whom the legislation of the Republic of Bulgaria is applied according to the rules for coordination of social security schemes.

The persons, who, according to the rules for coordination of social security schemes, are subject to health insurance in another Member State, shall not be covered by compulsory insurance provided by the National Health Insurance Fund.

The applicable law does not provide an option for voluntary inclusion in the national health insurance system, so foreigners who do not fall in any of the categories enlisted above, can't benefit from that system and should arrange their health insurance in Bulgaria by conclusion of private medical insurance policies.

17.6.3. The obligatory health insured person is generally entitled:

- i) to receive medical care within the scope of the basic package of health-care activities guaranteed by the budget of the National Health Insurance Fund;
- ii) to choose a medical care provider who or which has concluded a contract with the Regional Health Insurance Fund;
- iii) to receive emergency care wherever he or she may be;
- iv) to obtain information from the Regional Health Insurance Fund about the contracts concluded by the said fund with the medical care providers.

## 17.7. Moving Costs

Moving costs depend very much on the particular destination, transport means etc.

## 17.8. Tax Liability

See Section XIII

## 17.9. Work Contracts

Whether an investor would need to enter into a work contract in the country depends on the type of work performed – whether the activity performed qualifies as labor activity or management or other type of independent activity. In most of the cases, however, third country nationals, who are not citizens of EU Member States or of a state – party to the EEA (EU + Iceland, Liechtenstein and Norway), or of the Confederation of Switzerland should first obtain a work permit in order to be entitled to work in Bulgaria.

For more details on employment, please refer to Section XI.

### 17.10. Work Permits (Consents for granting an access to the Bulgarian labour market)

17.10.1. Third country nationals (individuals who are not citizens of EU Member States or of a state - party to the EEA, or of the Confederation of Switzerland) are required to have work permit in order to exercise labor activities in Bulgaria under employment contract or secondment. Third country nationals, who have obtained a permit to work in Bulgaria, are able to work only for the precise employer and for the term determined in the work permit. The work permit itself is the legal ground for issuance of visa “D”.

Along with that, the local labour migration law prohibits work in Bulgaria on more than one legal ground (for instance: a foreigner - employee in Bulgaria has the right to work in Bulgaria under one employment contract and for one particular employer. Parallel work under service agreement in Bulgaria, freelance, etc. is not permitted).

17.10.2. As per the general rules, employees who are third country nationals may be granted access to the Bulgarian labour market when applying for positions for which no Bulgarian nationality is required, when:

1. the total number of third country nationals with continued residence permits having worked for a local employer in the preceding 12 months does not exceed 20% of the average size of the workforce hired on an employment contract during that time, or 35% in the case of small or medium-sized businesses within the meaning as per Art. 3, para. 1, item 1 of the Bulgarian Small and Medium-sized Enterprises Act;
2. the existing conditions of work and compensation are not less favourable than those for Bulgarian nationals for the respective category of work;
3. the third country national possesses the specialized knowledge, skills and professional experience necessary for the relevant position.

17.10.3. The type of Work Permits (Consents for granting an access to the Bulgarian labour market) shall vary depending on the type, the scope and period of work to be performed by the foreigner on the territory of the Republic of Bulgaria.

Along with that, in some cases one final unified document is to be issued, objectifying the granted work and residence permits (like the cases with “EU Blue cards” and “Unified Work and Residence permits”), in other cases separate work and residence permits are to be issued (for employment of foreigners residing in Bulgaria in their capacity of dependents, for foreigners working in Bulgaria based on a long-term secondment or for a seasonal work, again with some further variations, etc.).

17.10.4. The period of validity of the work (and residence permits, where jointly issued) are different depending on the

17.10.5. The state fees for granting of work (and residence permits, where jointly issued), shall also vary.

17.10.6. The Bulgarian Labour Migration and Labour Mobility Act explicitly enlists particular hypotheses and categories of foreigners who may work in Bulgaria without having a work permit, in which cases however different regimes shall apply (as per the case might be):

17.10.6.1. Entitlement for free work (for foreigners with long-term/permanent residence permits in Bulgaria, etc.)

17.10.6.2. Entitlement to work following a prior declaring procedure before the local bureau of the Employment Agency (for family members of Bulgarian and Eu citizens, of foreigners with long-term/permanent residence permit in Bulgaria, etc.) and

17.10.6.3. Entitlement to work following a prior registration procedure in the Employment Agency (for foreigners who are seconded or posted to the Republic of Bulgaria by their foreign employer for up to three months out of every 12 month-period to perform certain duties in Bulgaria, etc.).

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